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TRAVEL PARTY COMPOSITION ON ATTITUDES AND BEHAVIORS AMONG CHINESE TOURISTS IN TAIWAN

Ru-Jen Cheng, Vanung University

ABSTRACT

This study investigated the influence of travel party composition on attitudes and behaviors among Chinese tourists in Taiwan. Based on tourism consumption system, 5 questions were proposed regarding tourists' preferred information sources, planning times, length of stay, satisfaction, and revisits. The three major travel party compositions were "traveling with friends", "couples", and "traveling with coworkers". The results suggested that travel party composition induced a number of substantial differences between travel parties, but that all travel parties exhibited critical similarities. This study provided empirical support for the Tourism Consumption System, and demonstrated the value of travel party composition analysis as a commonsense segmentation method in travel market research. Our findings provide insight into the burgeoning market for Chinese tourism in Taiwan.

JEL: D12, L83

KEYWORDS: Travel Party Composition, Tourism Consumption System, Planning Time

INTRODUCTION

Social groups are networks of people that connect in the course of their daily lives (Verbrugge, 1977; Feld and Carter, 1998; Fischer, 1982; Huckfeldt, 1983; McPherson and Smith-Lovin, 1987; Kalmijn and Flap, 2001, Abbott-Chapman and Robertson, 2001). The interactivity of social groups exerts a strong influence on people's behavior (Crompton, 1981; Wu, Zhang, and Fujiwara, 2011). In social groups, each member has distinctive traits, values, beliefs, interests, and expectations. People are motivated to take trips with their social groups because of the possibility for social interaction, rather than because of the destination in question (Carrasco, Miller, and Wellman, 2008). Because of Chinese cultural values, Chinese people prefer to travel with others and take all-inclusive package tours (Yau, 1988; Mok and DeFranco, 1999, Mok and Armstrong, 1995; Qu and Li, 1997; Wong and Lau, 2001).

The tourist decision-making process is influenced by intrapersonal mental processes and their interaction with psychological variables, and is extremely complex and comprehensive. A tourism consumption system (TCS) is the set of travel-related thoughts, decisions, and behaviors of a discretionary traveler prior to, during, and following a trip. Thoughts, decisions, and behaviors regarding one activity influence thoughts, decisions, and behaviors regarding a number of other activities; this implies that tourists exhibit behavioral patterns (Woodside and Dubelaar, 2002). The complexity of social activities during travel depends not only on peoples' schedule, but also on their social context; in other words, the people with whom they are traveling (Carrasco Juan-Antonio, and Miller, 2006; Habib, Carrasco et al., 2008). Travel party characteristics influence most variables in TCSs (Woodside et al., 2002).

Previous studies have focused on the family travel decision (Kang, Hsu, and Wolfe, 2003), rather than travel undertaken by social groups with various party compositions. It has been shown that travel with companions with the same interests and according to the same schedule enhances the pleasure of a vacation (Crompton, 1981). So and Lehto (2007) indicated that travel party composition was a situational variable that substantially influences tourists' behavior. When family members do not share the same travel interests, people treat friends as their surrogate families (Crompton, 1981). Recent studies have shown that young people prefer to take trips with close friends rather than with their families because they share more traits and behaviors with close friends (Huebner and Mancini, 2003). Traveling with coworkers is another alternative for group travel (Dellaert, Ettema and Lindh, 1998).

Few empirical studies have investigated travel party composition. This study examined differences in attitudes and behaviors among Chinese tourists to Taiwan by using travel party composition analysis. This study is conceptually based on Woodside and Dubelaar's (2002) TCS. We hypothesized that travel party composition affected tourists' travel-related thoughts, decisions, and behaviors. Based on an empirical survey of Chinese tourists visiting Taiwan, this study attempted to examine the influence of travel party composition on leisure trips.

Travel behaviors induced by various travel party compositions were examined using five research questions: (a) How does travel party composition influence information sources? (b) How does travel party composition influence vacation planning time? (c) How does travel party composition influence the length of stay during a vacation? (d) How does travel party composition enhance trip satisfaction? (e) How does travel party composition affect peoples' intention to revisit Taiwan?

This is done with the hope that it may provide suggestion to travel industry in Taiwan. In addition, travel party composition may serve as a situation for the study of different travel decision and travel behavior. The simplicity of this research result should enable the travel industry to offer more various travel package to different group needed.

This paper is divided into four main sections. Section 1 provided some background information about various travel composition's travel process. Section 2 illustrated the survey data analysis by analysis of variance (ANOVA). Section 3 presented a number of application of travel party composition in travel behavior. Finally, section 4 outlined some plans for future research.

LITERATURE REVIEW

Sociological theorists and researchers have investigated the concept of social group and its influence on individuals' decisions (Olmsted and Hane, 1978). A social group has been defined as a group of people who have similar values, interdependence, and a collective sense of unity (Turner, 1982, Platow, Grace, and Smithson, 2011).

The American sociologist Charles Horton Cooley proposed categorizing social groups into two types, namely primary groups and secondary groups (Cooley, 1909). Primary groups comprise people, such as family or friends, who are connected through shared personal experience and lasting relationships, spend time together, engage in a range of activities, and feel concerned for one another (Cooley, 1909). By contrast, secondary groups comprise people, such as coworkers, who are connected through formal and institutional relationships with weak emotional ties, and they may disband after achieving specific goals (Macionis, Gerber, John, and Linda, 2010). Types of social groups include couples, core family, extended family, relative, friends, and coworkers. Regardless of composition, the members of a group influence each other's behaviors, decisions, plans, and goals; they have strong causal effects on each other. The more time people spend together, the more opportunity they have to influence each other's thoughts and behaviors. Leisure travel produces numerous thoughts, decisions, behaviors, and evaluations prior to, during, and following a particular trip (Dellaert, et al., 1988, Woodside et al., 2002, Woodside, MacDonald, and Burford, 2004). Group travel differs from individual travel in nature, the destination-choice process, and associated contextual factors (Hsu, Tsaie and Wu, 2009, March and Woodside, 2005, Wu et al., 2011). Associated tourist activities are experienced jointly and reflect the influence of those traveling together (Chadwick, 1987, March et al., 2005). Group-based differences have been identified in the tourist destination-choice process and its associated contextual factors for the group-travel context, including the destination choice, time spent planning, motives, information use and behaviors, tour selection criteria, spending, flexibility, activities, and length of stay (Basala and Klenosky, 2001, Dellaert et al., 1998, Hsu et al., 2009, March et al., 2005).

The influence of social group during leisure time was demonstrated in the field of tourism (Crompton, 1981). Burch (1969) and O'Leary, Field, and Schreuder (1974) have indicated that an intimate social group is decisive in determining the variation in leisure behavior. Some customers could not conceive of satisfactory travel unless they were accompanied by the compatible person. Moreover, traveling with company can save money, avoid loneliness, stimulate additional perspectives, and provide a sympathetic forum for recalling vacation experiences (Crompton, 1981).

This travel behavior can be largely attributed to the collectivist society in China. The group-oriented behavior of Chinese people was revealed by Mok et al. (1999). Chinese tourism can be categorized into company, employee, and family travel. These groups exhibit different travel-related behaviors (Fodness and Murray, 1999). Family tourism often represents connected experiences of leisure travel, and the activities involved reflect the influence of all those traveling together (Chadwick, 1987). The family remains the predominant social group in which people choose to spend their leisure time; this was particularly true of twentieth-century vacations (Crompton, 1981).

In this study, travel groups were categorized into three types, namely couples, friends, and coworkers, because preferences have more weight among the choices of stronger relationships than among those of casual acquaintances. A family is an intimate group of two or more people who live together in a committed relationship and share activities and close emotional ties. Leisure travel creates an opportunity for family members to bond. Moreover, household socio-demographics have considerable effects on the decisions related to tour frequency, tour type, participating parties, mode, and destination choice, and the characteristics of the traveling parties have considerable influences on the decisions related to tour type.

Friendship group relationships are increasingly relevant as people spend more time with similar individuals. Traveling with friends tends to involve activities with strong entertaining and socializing undertones (So et al., 2007). When a family member has a particular interest that is not shared by other family members, friends are sought and serve as family surrogates. Friends with compatible interests travel for an extended period, compared with a family vacation (Crompton, 1981). For example, teenagers have more in common with their friends because of their experience of similar problems. As children mature, the family group naturally begins to deteriorate, and the young seek out the company of peers with similar interests.

Dellaert et al., (1998) revealed the coupling constraints of family members, friends, and coworkers. Although business travel has been investigated, few studies have discussed leisure travel with coworkers. Coworkers may have conflicts of interest, and they only stay together to finish their tasks. Therefore, the interpersonal distances between coworkers are greater than those between friends (Little, 1965). Romantic relationships are generally stronger than friendships, and friendships are stronger than relationships between coworkers.

Travel Party Composition and Planning Time

Davidson, Yantis, Norwood, and Montano (1985) emphasized planning as the basis for influencing a decision or changing a behavior. Travelers prefer not to ruin their vacation by seeking information and deliberating in advance (Parrinello, 1993). For many tourists, a trip of 1 week or longer is a major decision that requires planning. Tourists who spend more time planning often travel for longer (Woodside, Trappey, and MacDonald, 1997). In general, the planning and acting behaviors of travelers are heavily influenced by the composition of the traveling party (McIntosh and Goeldner, 1990, Chia and Qu, 2008).

Knox and Walker (2003) demonstrated that travel party composition affects the entire nature of the decision process in travel behavior. Couples spend more planning time and stay longer at their destination than friends and colleagues do. Therefore, in this study, the planning time differed between different travel party compositions because of differences in their travel purposes. Hence, we hypothesized that couples, friends, and coworkers have different planning time in advance of their leisure travel.

H1: Travel party composition has a significant influence on planning time.

Travel Party Composition and Information Sources

Several studies have confirmed the strong influence of travel party characteristics on the information search and use strategies implemented by travelers (Fodness et al., 1998, Snepenger, Meged, Snelling, and Worrall, 1990). Bieger and Laesser (2004) identified different patterns of tourists' information sourcing throughout the travel decision processes. Consumers adopt different search information patterns because they perceive high risk associated with touristic experiences (Engel, Blackwell, and Miniard, 1995). Commercial guide books, personal experience, travel agencies, and friends or relatives are the main information sources for tourists.

For many travelers, friends or relatives are their primary sources of information during trip planning, and they believe that travel planning is an integral part of vacationing. In addition, those traveling for leisure are the most likely to rely on their personal experience to plan their trips. Moreover, acquiring travel information is time consuming, particularly in the context of different travel party compositions. Couples can commit more time to planning than friends and coworkers can. Because of their distance, friends and coworkers are more likely to seek help from a travel agent. Some tourists personally address the details and concerns of all the dimensions of their trip, whereas others simply leave the decisions to the travel agent. Couples, friends, and coworkers have different types of decision leaders who use different information sources. Therefore, we proposed the following hypothesis:

H2: Travel party composition significantly affects the use of different information sources.

Travel Party Composition and Length of Stay

For tourists, destination and duration choices involve a series of evaluations according to the vacation budget, the time available, and travel companions (Fesenmaier and Jeng, 2000). Nationality, education, income, experience, familiarity, and daily spending are major factors influencing the length of stay (Gokovalia, Bahara, and Kozakb, 2007). Several other factors, including the tour package suitability, price level, and composition and familiarity of the party, may also influence the length of vacation. The length of stay is one of the most crucial vacation decisions (Decrop and Snelders, 2004).

Personal and family characteristics that may determine the length of stay include the tourist's age, family status, number of children, level of education, and profession. For example, a couple's desire to make their vacations coincide might limit the length of the trip (Alegre and Pou, 2006). Couples, friends, and coworkers have various travel behaviors and may decide to join different types of trips over different durations. Therefore, the following hypothesis was proposed:

H3: Travel party composition significantly affects length of stay

Travel Party Composition and Satisfaction

Oliver (1997) demonstrated that conceptualization is the antecedent of overall satisfaction. Satisfaction research in tourism and recreation has indicated that tourists' satisfaction with individual components of the destination influences their satisfaction with the overall destination (Danaher and Arweiler, 1996, Kang et al., 2003, Ross and Iso-Ahola, 1991). Overall satisfaction must be distinguished from satisfaction with individual attributes, because the particular characteristics of tourism have a prominent effect on tourist satisfaction (Seaton and Benett, 1996).

Qu et al., (1997) showed that Chinese visitors were satisfied with the tourism infrastructure and facilities; the service provided in hotels, restaurants, and shops; the transportation system; and the environment. Tourists' satisfaction therefore refers to the favorability of the individual's subjective evaluation of the outcomes associated with using or consuming a product (Hunt, 1977).

However, satisfaction as a type of attitude is particularly likely to be influenced by the social context, and it is communicated to others in the tourist's social environment (Coghlan and Pearce, 2010, Pearce, 2005, Ryan, 1997). Social groups increase the satisfaction derived from a vacation by providing an interested and sympathetic forum within which an individual's vacation experiences can be discussed. Recalling vacation experiences provides a crucial contribution to the total satisfaction derived from the vacation and the interactions of the travel party. Pavot and Diener (2008) revealed that satisfied tourists were entirely engaged with and dependent on the positive experience of their group. According to TCS, different travel party compositions exhibit different travel behavior and satisfaction levels with their trip. Therefore, the following hypothesis was proposed.

H4: Travel party composition significantly affects satisfaction.

Travel Party Composition and Revisit Intention

Ouellette and Wood (1998) noted that past behavior has significantly positive effects on future behavior. If tourists are satisfied with their travel experiences, they are assumed to be more willing to revisit a destination as well as spread positive word of mouth. Several studies have focused on the relationships between quality, satisfaction, and behavioral intentions (Backman and Veldkamp, 1995, Baker and Crompton, 2000, Cronin, Brady, and Hult, 2000). Destination image and travel satisfaction had a direct effect on revisit intention. However, trip quality was perceived through customer value and had an indirect effect on customer revisit intention (Chen and Tsai, 2007).

Kozak and Duman (2012) investigated the effect of other members in a travel group on a partner's vacation satisfaction and ultimately revisit intention. Travel companions might also influence the tourism experience derived, and previous travel experience might influence tourist revisit intention. Therefore, other customers can affect the nature of the service outcome and process. In this study, the revisit intentions of couples, friends, and coworkers were discussed. Travel companions who share leisure activities and have good experiences are likely to revisit. Travel with couples, friends, and coworkers has different perceived satisfaction. Thus, the following hypothesis was proposed:

H5: Travel party composition significantly affects revisit intention.

DATA AND METHODOLOGY

This study analyzed secondary data provided by the Annual Visitors Expenditure and Trends Survey for Taiwan in 2010 and 2011, a volunteer survey of 12,025 tourists departing Taiwan from Taipei's Taoyuan International Airport, Taipei International Airport, and Kaohsiung's Siaogang International Airport.

Chinese visitors accounted for 42.46% of all inbound leisure travelers to Taiwan in 2010 and 2011 (Taiwan Tourism Bureau, 2010–2011).

The study determined the influence of travel-related thoughts, decisions, and behaviors on whether Chinese tourists traveled to Taiwan as couples or with friends or coworkers, and queried participants regarding the information sources they used, planning time, length of stay, trip satisfaction, and intention to revisit. Participants were asked to score their answers to most questions using a 5-point Likert scale, and the remaining questions required yes or no answers.

The responses of 2,566 Chinese leisure travelers in Taiwan were analyzed, which filter to who i) Nationality is Chinese; ii) the purpose of trip is sightseeing; there were 1,561 women and 1,005 men, and most were 20–29 years old; iii) travel party compositions were "traveling with friends" (1,143 people, 44.54%), couples (767, 29.90%), and "traveling with coworkers" (656, 25.57%). The five research questions were investigated using a one-way ANOVA to test the continuous variables of information sources, planning time, length of stay, and trip satisfaction.

RESULTS AND DISCUSSION

As shown in Table 1, the information sources used by couples, those traveling with friends, and those traveling with coworkers, differed; however, all groups were exposed to subway/bus and TV/radio advertising. These findings were consistent with those of Fodness et al., (1999), who reported that use of information sources differed substantially depending on friends, couples, and co-workers.

Table 1：Type of Information Source Preferences by Travel Party Composition (ANOVA Tests)

Information Source	Friends	Couples	Coworkers	F	P
Newspapers Magazines	1.68(4)	1.30(4)	1.22(5)	10.717	0.000***
Ad on Subways/ Buses	0.82(6)	0.46(6)	0.32(6)	26.564	0.000***
TV/Radio	2.83(1)	2.70(1)	2.42(1)	5.986	0.003**
Internet	1.97(2)	1.28(5)	2.08(2)	24.696	0.000***
International Travel Exhibitions	0.39(8)	0.22(8)	0.30(7)	4.916	0.007***
Outdoor Ad or Billboards	0.47(7)	0.23(7)	0.28(8)	10.775	0.000***
Tourism Leaflets of Travel Agency	1.43(5)	1.83(2)	1.95(3)	11.192	0.000***
WOM from Friends or Relatives	1.71(3)	1.42(3)	1.24(4)	8.626	0.000***

*This table shows mean difference analysis in friends, couples, and coworkers. The fourth column reports the results of ANOVA test of F value. The last column reports the P value.Note: * significant at 10%-level, ** significant at 5%-level, ***significant at 1%-level.*
Numbers in parenthesis are the rank of each item based on means.

As shown in Table 2, couples spent the most time planning their trips, and those traveling with coworkers averaged the longest lengths of stay. Those traveling with friends were most likely to revisit Taiwan. Although Chinese travel to Taiwan had varying travel party compositions, they were all satisfied with their itineraries, accommodations, transportation, meals, tour guide services, the professionalism of their tour guides, and their overall trip. Couples were most satisfied regarding all survey items.

To determine how travel party composition affected peoples' intention to revisit Taiwan, a chi-square analysis was used to test the associations between the row (travel with friends, couples, and coworkers) and column variables (intention to revisit), because the variables were measured on a discrete scale (see Table 3). The Pearson chi-square statistic was non-significant (c2 = 0.316, p > .1). As for tourists' intention to revisit Taiwan, there were no statistic differences between those who traveled with couples, friends, and coworkers. Travel party composition was determined not to influence tourists' intention to revisit Taiwan.

Table 2：Time of Plan Length of Stay and Satisfaction of Travel Package by Travel Party Composition (ANOVA Tests)

Element	Friends	Couples	Coworkers	F	P
Time of Plan	45.91	55.89	53.72	4.632	0.010**
Length of Stay	5.36	6.12	6.16	33.642	0.000***
Itinerary	4.3(6)	4.46(5)	4.13(6)	26.184	0.000***
Accommodations	4.36(5)	4.42(6)	4.30(5)	4.304	0.014**
Transportation	4.62(3)	4.74(3)	4.61(3)	11.842	0.000***
Meals	4.2(7)	4.23(7)	4.05(7)	8.877	0.000***
Tour Guide Service	4.69(1)	4.80(1)	4.64(1)	16.305	0.000***
Professional of the Tour Guide	4.67(2)	4.78(2)	4.62(2)	13.427	0.000***
Overall Impression	4.53(4)	4.65(4)	4.48(4)	15.998	0.000***
Revisit	1.08	1.08	1.08	0.158	0.854

*This table shows mean difference analysis in friends, couples, and coworkers. The fourth column reports the results of ANOVA test of F value. The last column reports the P value. Note: * significant at 10%-level, ** significant at 5%-level, ***significant at 1%-level. Numbers in parenthesis are the rank of each item based on Means.*

Table 3：Revisit Intention by Travel Party Composition (Chi-Square Tests)

Travel Party Composition	Revisit Intention			
	Yes		No	
Friends	1,055	(41.1%)	88	(3.4%)
Couples	704	(27.4%)	63	(2.5%)
Coworkers	601	(23.4%)	55	(2.1%)
Total	2,360	(92.0%)	206	(8.0%)

This table shows "yes" or "not" revisit to Taiwan in friends, couples, and coworkers. The second column reports the tourists will revisit. The last column reports the tourists will not revisit.

This study extended So et al.,'s (2007) research on travel party composition. We discovered that types of information sources used, planning time, length of stay, and trip satisfaction differed significantly between couples and those traveling with friends or coworkers. The results of this study revealed that travel party composition induced a number of significant differences between travel parties, but all travel parties exhibited critical similarities. The difference in travel behaviors among couples and those traveling with friends or coworkers has theoretical implications for tourism researchers.

This paper provides empirical support for the relevance of the TCS to the analysis of travel party composition. First, although all three travel party compositions were exposed to subway/bus and TV/radio advertising, they reported different uses of travel agency tourism brochures. A significance test showed that couples considered information available at travel agencies more decisive than those traveling with friends or coworkers. This is because tourism brochures available at travel agencies have emerged as one of the main sources of information for couples.

Second, regarding planning time, those traveling with people with whom they were intimate, such as couples, were likely to spend more time planning their trips and had higher levels of satisfaction than people traveling with friends. Because friends typically do not see each other often in their daily lives, they might travel together to catch up with each other. Conversely, couples typically spend more time together and therefore might have higher perceived travel quality than friends.

Third, lengths of stay differed significantly among the three travel party compositions. Tourists lengthen their stays when they become aware of additional activities (Fodness et al., 1999). People who traveled with coworkers stayed longest, followed by couples. Trip durations might depend on people's work schedules (Dellaert et al., 1998). Couples and coworkers typically have similar work schedules, enabling similar trip scheduling; thus, there were significant differences in lengths of stay between couples and those traveling with coworkers, and those traveling with friends.

Fourth, couples were most satisfied with tours in Taiwan, because they prefer to acquire travel information from travel agencies before their trips. According to the expectation theory (Oliver, 1974), people decide to act due to what they expect the result of that selected. Couples were satisfied regarding their itineraries, accommodations, transportation, meals, tour guide services, the professionalism of their tour guide, and overall impressions because they prefer got the information source from travel agency.

Finally, the three travel party compositions exhibited no statistic difference in their intentions to revisit. These results suggested that travel agencies should identify travel party compositions and target them with tailored travel package promotions. Couples can be identified by travel marketers by their use of tourism brochures available at travel agencies; travel marketers can also provide couples with information in 56 days prior to the decision to travel at all. Travel marketers can target those traveling with friends or coworkers by using the Internet or TV/radio advertising.

CONCLUDING COMMENTS

By analyzing TCSs, this study investigated how travel-related attitudes and behaviors were influenced by three travel party compositions: couples, those traveling with friends, and those traveling with coworkers. Travel party compositions influenced the use of various information sources, planning times, lengths of stay, satisfaction levels, and revisit intentions. The results indicated that traveling with friends is a prevalent contemporary phenomenon. Couples and those traveling with coworkers had longer lengths of stay, and couples required more planning time. These findings provide insight to travel agencies and the government and enable further evaluation of the effects of tourism marketing activities on subsequent tourist behavior. Moreover, marketing segmentation should consider not only tourists' individual attributes but also their travel party compositions.

Future research monitor another factor such as generation on TCS. Travel party composition is a critical influence on tourist behavior which must be considered by Taiwanese marketers. Market segmentation on the basis of travel behavior and adopting effective media could be a useful method for Taiwan marketers to reach their target audiences and provide suitable travel package.

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BIOGRAPHY

Dr. Ru-Jen Cheng is a Lecturer of Business Administration at Vanung University. She can be contacted at: Department of Business Administration, College of Business, No.1, Wanneng Rd., Zhongli Dist., Taoyuan City 32061, Taiwan (R.O.C.). Phone: 886-3-451-5811. Email: jenny@vnu.edu.tw

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CLIMATE CHANGE, GLOBAL INTERDEPENDENCE AND BARGAINING LEVERAGE: A CLASSICAL REALIST CRITIQUE OF WHY SOUTH KOREA ADOPTED A CARBON CAP AND TRADE SYSTEM

Benedict E. DeDominicis, Catholic University of Korea

ABSTRACT

South Korean diplomatic bargaining leverage is enhanced through South Korea acquiring global leadership positions in promoting sustainable development. Global governance trends in addressing the greenhouse gas emission causes of climate change create opportunities for South Korea to benefit in terms of its power capabilities. They include diplomatic bargaining leverage deriving from South Korean representatives' high profile in supporting global multilateral treaty initiatives and their implementation organizations. South Korea benefits diplomatically from increasing global awareness of political economic interdependence for national sustainable development. Competition for influence by the United States and China in the post-Cold War international environment includes vying for leadership in global sustainable development initiatives. South Korea's geographic and institutional location at a nexus where US and Chinese focus their competition creates greater opportunities as well as dangers. South Korea aims to direct their competition into global sustainable development promotion with South Korea a leading proponent of these initiatives. As a lesser power, South Korea must accommodate this competition, while seeking to mitigate it to avoid regional and global interdependence from being undermined. This diplomatic bargaining leverage focus facilitates elaboration of the concepts of modernization, networking, hedging and soft-balancing in response to the rise of China.

JEL: F1, F5, F6, Q5

KEYWORDS: Climate Change, China, Korea

INTRODUCTION

South Korea adopted a carbon cap and trade system, entering into effect on January 12, 2015 ("South Korea Power Report" 2015). South Korea is an East Asian state leader, initiating a national emissions trading scheme (ETS) before many of its economic competitors (World Bank Group, 2015, 12). South Korea declared its intentions to reduce greenhouse gas emissions by 30% by 2020 ("Country Report," 2015, 34). South Korea launched its ETS 22 months before the 12 December 2015 Paris Agreement came to effect on November 4, 2016 (Bradsher, 2016).

The 21st Conference of Parties to the United Nations Framework Convention on Climate Change (UNFCC) adopted the Paris Agreement. The 1992 United Nations Conference on Environment and Development held in Rio de Janeiro, the "Earth Summit," adopted the UNFCC, which entered into force in 1994 ("Briefing: The Paris Agreement," 2016). The Paris Agreement requires developed states to formulate and adopt policies to limit and reduce further their carbon emissions from 2020, earlier than for developing states. The Paris Agreement builds upon the 1997 Kyoto Protocol to the UNFCC, with the Kyoto Protocol terminating in 2020. Chinese officials have spoken of establishing a Chinese carbon market by 2017 (Wong and Buckley, 2015). South Korea is significantly less wealthy per capita in comparison with Japan or other industrialized states adopting or considering greenhouse gas emission market-based restriction systems.

Answering the question as to why South Korea adopted a carbon cap-and-trade policy has different facets. At one level, the search for an answer may focus on official government policy accounts. I. Watson notes that Seoul after the institutionalization of the Korean War ceasefire adopted a national security strategy emphasizing national strength through economic development. President Lee Myong-bak (2008-13) of the conservative Grand National Party embraced a global environmental protection component modification to this policy thrust:

> The official state-led view is that the long-term qualitative redefining of national security can be constructed through a new economic strategy known as 'green development' because business as usual (BAU) brown industrial development strategies of the past are counter-productive to establishing long-term national security. In this sense, environmentalism is no longer regarded as being a fetter on economic development, but rather an integral facet of development and thus of a new approach to national security (2012, 539).

South Korea's global green component to its security policy attracted global attention, incorporating a commitment to serve as a link between the developing and the developed world (Ibid.).

This study explores how to conceptualize South Korea's policy commitment in terms of generating bargaining leverage to pursue its polity motivations and policy aims. It highlights the role of South Korea's soft power emphasis in its international grand strategy in its relations with China, the US and their allies and clients. China is a focus of South Korean strategy for its role as the main source of economic subsidy for North Korea. Chinese elite and public opinion places emphasis on studying South Korea as a laboratory for policies that China may adapt and adopt. Confucian South Korea's economic success was important to the Chinese leadership in formulating their own economic reforms (Friedman, 2009, 5, 9, Wang, 1996). Escalating conflict between China and US allies in East Asia complicates South Korea's strategy for reunification of the Korean peninsula under the Seoul regime. South Korea's carbon cap-and-trade program is part of its post-Cold War strategy to exploit economically and politically critical global trends to enhance its diplomatic bargaining leverage.

The contribution of this paper to the international relations theoretical literature through the case study vehicle of South Korea's climate change foreign policy includes multiple aspects. Firstly, it elaborates the notion of hedging and soft-balancing by lesser powers within the US-dominated regional and global framework with the rise of China (Pempel, 2010, Scott, 2010, 88). Its focus on the case of South Korean carbon cap-and-trade provides a useful elucidation of the concept of hedging behavior by a middle-ranking, globalized state. Secondly, it thereby develops the characterization of South Korea as developing and deploying ideational and positional power through its complex, networked foreign policy (Hayes, 2015, 97). It elaborates international networking by linking it to an explicit conceptualization of strategic enhancement of South Korea's diplomatic bargaining leverage. Thirdly, it thereby demonstrates the importance of core concepts in Hans J. Morgenthau's seminal exposition of classical realist theory for conceptualizing globalization. Classical realism's theory of power and influence accommodates liberalist emphases on cooperation while supporting today's constructivist foci on ideational power. Trends in contemporary international economic, developmental and environmental law illustrate this synergy. Shaping national interest as each state articulates it occurs through the application of competing great power hegemonic state influence capabilities. This point is foundational for addressing the global challenge of anthropogenic climate change.

The paper begins with a critical dialogue with selected theoretical literature conceptualizing state power, motivation, strategic behavior, hegemony and globalization to outline the theoretical framework. It then applies the framework to the case of the rise of China in the context of established postwar US global hegemony. The following section highlights how these competing hegemonies interact insofar as national development requires integration in global trade and investment flows after the Cold War. South Korea has exploited the opportunities which these competing hegemonies provide. The reconciliation of these competitive cooperation imperatives manifests itself within the context of international economic, development and environmental law. These international hard and soft law trends constitute international regimes and their organizational manifestations, such as the World Bank. The rise of sovereignty-focused, nationalist populism within the US and elsewhere is a major challenge to these regimes. South Korea as a middle-ranking power plays an interlocutory, mediating role in the evolving international system as it pursues its own goals, including national reunification under the Seoul regime. China surpassed the US as South Korea's largest trading partner in 2004, and currently China imports more than twice as much South Korean exports as the US (Kim and Cha, 2016, 107).

LITERATURE REVIEW

A classical realist perspective is a useful theoretical framework for critical strategic analysis of international regime mechanisms for global environmental protection. Realism's relevance is also evident in the rise of sovereignty-focused, populist nationalism worldwide amidst globalization-driven state restructuring with the internationalization of capital (Oguz, 2015). In the European Union, the leader in global efforts to address global climate change, this rise of sovereignty-focused, populist nationalism takes the form of national Euro skepticism (Zeff and Piro, 2015, 2).

Alternative viewpoints include liberalist, global governance perspectives (e.g Cho, 2013). As liberalist theorists point out, most of international interaction is business and trade related. It consists of cooperation for win-win outcomes (Schweller, 2011, 285). Critical constructivist critiques, which have been characterized more as an approach, have also been applied (Viola, Franchini and Ribeiro, 2013). These applications include a focus on narratives of national security and international environmental cooperation regarding South Korea (I. Watson, 2012). Conflating international economic cooperation and environmental protection regimes is appealing because they typically are congruent (e.g. Nathan and Scobell, 2013). Meanwhile, within established nation states, sovereignty-focused, populist nationalism rises, e.g. in the United Kingdom with the Brexit vote and Donald Trump's election as US president.

The classical realist focus on power motivation usefully addresses the question as to why South Korea as a middle-ranking power adopted a global leadership position on carbon cap-and-trade policy. It relies on theoretical assumptions of state power motivation for its premises. Hans J. Morgenthau's theoretical insights have been important in developing the most influential theory of international relations, the theory of "realism" in international relations (Morgenthau, 1993, Cottam, 1977, 14-17). Two vital concepts in Morgenthau's theory of realism in international relations are power and national interest. Power capabilities are evaluated relative to other states. Morgenthau's international relations theory of political realism is concerned ultimately about the optimization of power. Power is "the exercise of influence over the minds and actions of men" (Cottam and Gallucci, 1978, 4). It determines the range of policy options which a government has in its foreign policy. Realism assumes that an objective national interest exists in the form of the optimization of political influence of a country in the external international political environment. The national interest of a state is to expand to the objective limits of its geopolitical hegemonic sphere of influence. These limits derive from the relative power capability base which each state has. The relative power capability among states is changing, so the boundaries of a state's appropriate sphere of influence should change as well to avoid relative power-debilitating imperial overreach (Cesa, 2009, 178-80, 188-90, Chen, 2013, 44). With the rise of China, the question emerges as to whether the US risks being overextended in Korea and in east Asia generally. In the case of overextension, eventually, an international political systemic correction occurs as a result of inevitable foreign policy defeats. States, like people, rarely decline gracefully.

Morgenthau’s theory of realism assumes that states act as if optimizing their relative power capabilities and political influence in international relations is their primary motivation (Carroll, 1972). The -as if- argument is the cover for an incremental foreign policy making process within a state. Morgenthau knew what a state's motivations in world politics were, or rather, what they were in effect going to be, i.e. power and influence (Behr and Heath, 2009). He did not need to ask, ‘why did they want power and influence?’ because, apparently, this question does not matter for understanding patterns of state international behavior. He knew that there was a political foreign policy making process inside a government, and that it was complex. He saw patterns and tendencies that push it in certain directions, which he saw as being overwhelming (Cottam, 1977, 15).

Morgenthau identifies 3 pattern types or categories of foreign policy strategic behavior (Behr and Heath, 2009, 337): 1) Status Quo -- a status quo policy aims to maintain the influence of an actor in international relations. 2) Imperialist -- an imperialist policy occurs when an actor recognizes that it has the ability to expand its influence and if it has the opportunity to expand its influence, it will. 3) Prestige -- a prestige policy occurs when an actor, which has been exercising great influence, begins to experience a decline in its relative power potential base. The implications are the following:

Table 1: General Foreign Policy Patterns

Country	Power Potential Base	Influence Exercised	Foreign Policy Will Be
A	1	2	Imperialist
B	1	1	Status Quo
C	2	1	Prestige

Morgenthau identified three general foreign policy behavior patterns by states in international relations, focusing on Great Powers, i.e. the states with the top ranking relative power capabilities in the international political system. Morgenthau’s theory of political realism assumed that states act as if the optimization of their power and influence in the world is their primary foreign policy motivation. A rising Great Power such as China will therefore seek to expand its influence, defined as control over the thoughts and actions of men. The US, holding primacy in the postwar system, will seek to maintain its influence and resist China’s rise. A declining Great Power such as post-Cold War Russia will engage in ultimately futile demonstrations of capabilities. Awareness of interdependence can mitigate tendencies towards violent international competition.

In terms of ethics and morality, Morgenthau emphasized the necessity of leadership decisions on the basis of an understanding of the consequences of one’s foreign policy decisions. In a world of states seeking influence despite resistance, a balance of power through creation of spheres of influence was therefore necessary. Maintenance would contain and prevent disastrous wars of global conquest, which would be the greatest ethical evil. The international political realist’s rules of diplomatic strategy require that Great Powers should keep a balance of power among spheres of influence (Chen, 2013, 44). A state therefore should not over extend, nor under extend, nor should it allow a lesser power ally to determine its foreign policy so as to maintain its adaptive flexibility.

Morgenthau observed that state leaders will cloak the output of their country’s foreign policy making process in broadly appealing ideological or religious symbols. This justification for their influence advancement he labelled, nationalistic universalism (Jütersonke, 2006, 203). Therefore, a state’s foreign policy motivations are rarely what a state leader claims they are. Realists therefore tend to be skeptics with regard to the importance of moral principles as guides to making foreign policy.

Nationalistic universalism is the belief that one state’s values and interests are superior, ideologically or religiously, to those of other states (Sullivan, 2010, 286). Intensely imperialist powers by definition are less constrained by the norm regimes embodied in international law. A recognized balance of power mandating cooperation is necessary for international law to develop. Therefore, the existence of an international political problem defined as global climate change is a global regime product of a balance of power system. It exists in relation both to great powers and lesser powers in peripheral regions (Little, 2007, 122, 125). It is a creation of globalization and great power competition within this context. Nationalistic universalism includes the self-serving interpretation of the foreign policy aims of an aspiring superpower (James 2008, 422).

Shilliam offers insights into the role of nationalistic universalism in relation to global regime production and maintenance,

> Morgenthau developed his ‘conservative liberalism’ by reference to what might be called the international dimension of knowledge production. Recognizing this dimension requires us to reimagine context as neither bounded to a particular society, nor universal in scope, but rather delineated in and through a specific society’s interaction with other, differentially developed societies (2007, 301).

Modernization is thus the dominant agenda characterizing the political economic foreign policy thrust of post-Soviet Russia as one of the BRICS (Brazil, Russia, India, China, South Africa). The Russian authorities emphasize Chinese resources for modernization, dependent significantly upon the intensity of conflict between Moscow and the Euro-Atlantic community (Freire and Simão, 2015).

DISCUSSION

State leaders in effect tend publicly to portray their respective polities’ foreign policy in self-serving terms, i.e. reflecting the challenges they face in a particular international political context. The selection of broadly appealing ideological symbols (in the contemporary era) will be made accordingly:

Table 2: Examples of Nationalistic Universalism

	Denmark (1940) [i.e. Germany Threat]	**UK (1900) [i.e. Hegemonic Peak]**	**UK (1988) [i.e. USSR Threat]**
Power Potential Base (scale of 1-5)	4	1	2 (and declining)
Geopolitical prevailing view	Threat	Opportunity	Threat
Nationalistic Universalism	national self-determination	civilizing mission	national self-determination

According to Morgenthau, state polities will collectively tend to cloak the output of their respective, complex foreign policy making process in broadly appealing ideological or religious symbols. A state’s relative capabilities which shape consequent, perceived challenges, determine the content of a state’s nationalistic universalism. The prevailing worldviews at a particular point in world history will shape the content of the nationalistic universalism. For example, today, Western and East Asian state leaders tend to evoke different selective human rights themes to justify their respective foreign policies. By successfully persuading the global public that the particular interests of a state are in interests of target polities as well, then the initiator state can more readily achieve its foreign policy goals at lesser cost.

Table 3: Morgenthau Might Portray the Cold War Accordingly

	USSR (1950) [Cold War Height]	**USSR (1988) [Cold War End]**	**USA (1950)**	**USA (1988)**
Power Potential Base	1	1 (declining)	1	1
Geopolitical prevailing view	Opportunity	Threat	Opportunity	Neither T Nor O
Nationalistic Universalism	advance the dialectic	each country determines its own pace	modernization (i.e. civilizing mission)	national self-determination/ modernization

The Cold War reflected the postwar inadmissibility of blatantly racist justifications for foreign policy such as “civilizing mission” and “white man’s burden.” Appropriate postwar terms include promoting modernization and development in the so-called “developing” world. In the post-Cold War international political system, global environmental concerns have modified the modernization paradigm to include sustainable development.

Soft, or attractive, power is getting others to want what the initiator state wants. It can have its foundations in the ability to set the political agenda in its sphere of influence such that it shapes the preferences of others that the latter express. It can also rest on the appeal of one’s ideas. Smart power is the capacity to know when to apply hard power, when to apply soft power, and when and how to combine the two (Nye and Welch, 2017, 47-49). Capacity includes social science, i.e. inter-subjectively validated social science knowledge, including knowledge/awareness of interdependence (see Table 5). As highlighted below, a source of diplomatic bargaining leverage includes the importance of knowing and realizing that state actors are interdependent. This interdependence has always been true. A task of social science is to remove obfuscation so that this understanding composes part of the diplomatic bargaining context. South Korea with its commitment to green politics in its foreign policy is attempting to boost its soft and hard power capabilities by shaping global interdependence awareness. Its international political strategy includes highlighting its technological prowess to meet these challenges, in particular in negotiating with the developing world. South Korea is a state that still is fighting to win the Korean War in the post-Cold War era by unifying Korea on Seoul's terms. As rising China significantly adopts and adapts the South Korean model, it serves to undermine the leverage of North Korea. Smart power is power conversion (Nye and Welch, 2017, 46). It involves converting resources into effective influence over other countries' behavior. It is the generation of bargaining leverage for subsequent application (see Table 5). The Seoul government recognizes the importance of climate change generates significant opportunities for enhancing particular forms of hard and soft power for subsequent smart power ("Park Calls for Efforts for Launch of New Deal on Climate Change," 2015).

Table 4: Nationalistic Universalism in 2017

	N. Korea	S. Korea	Japan	USA	Russia	China
Ibid.	4	3	2	1	2	2
Ibid.	T	T	T	T/O	T/O	T/O
Ibid.	self-determination	modernization/civilizing mission/self-determination	modernization/self-determination	war on terror/ civilizing mission/modernization	modernization/civilizing mission/self-determination	modernization/self-determination

The collapse of the USSR accelerated US global influence expansion. Awareness of interdependency under the aegis of US-led globalization shaped prevailing global views of the necessities for national development with the failure of Soviet Communism. South Korea became an exemplar of economic development concomitantly with growing global governance efforts to address global climate change challenges via sustainable development policy. The post- September 11, 2001 international political environment added the "war on terror" to US universalistic global influence primacy justifications to remove the threats from rogue states to global civilizational progress. The rise of China within this dynamic international context generates threats and opportunities for South Korea to increase its influence to pursue its own foreign policy aims.

Liberalists argue that international relations exist in a global society of states. Like any society, norms and rules do guide the behavior of its members, even though they may engage in violence against each other. Most of the time, most states obey most of their international legal obligations to each other: most of the time they cooperate to resolve their disputes peacefully (Henikin, n.d.). Liberalist principles stand in contrast to realist ones. Shilliam's insight outlined above notes that liberalism can be a justification for national influence expansion in the international community. Whether this expansion by China, the US or any actor is seen as imperialistic threat to a state's sovereignty is a subjective determination by each national community. Their respective perceived interests and challenges will shape their collective polity responses to this expansion. South Korea, for example, is comparatively open to US influence because its particular political and historical challenges are very different from the People's Republic of China.

Liberalists tend to be state moralists: members of this global society of states do regulate their behavior according to common norms of cooperative behavior. They will form coalitions to punish militant law breakers. The proof is the importance of international institutions and norm regimes of behavior including the United Nations, the World Trade Organization, and many others. Realists would respond that Great Powers cause these international organizations to function, if they function. The United Nations Security Council was largely immobilized by competing vetoes during most of the Cold War. It then became much authoritative in international relations with the end of the Cold War.

Constructivists argue that citizens exist in a global society of individuals, and sovereign states have emerged and are declining as a result of the changing values and capabilities of individuals. We live in a cosmopolitan global order. Human rights concerns are becoming more influential in global public opinion to limit and constrain the behavior of governments. The world is not anarchic, but rather complex, and human rights aspirations can progressively expand. The national interest is simply whatever the output of the foreign policy making process, and not expanding to the objectively determinable boundaries of a state's sphere of influence.

In sum, global value change is more likely to occur if the respective nationalistic universalism of Great Powers is more or less accepted as best practice prescriptions for national power capability. One US foreign policy college textbook claims that soft power is far more important than military power for US influence in international affairs (Hook, 2017, 246). It is embodied in the US itself as a model of modernization (Ibid., 10). J. K. Watson argues that Japanese imperial expansion beginning in the late nineteenth century adopted British imperial models to the point of mimicry. South Korea inherited core concepts of self and other from being subject to the Japanese imperial modernization project drawing heavily from the West. The "modernization" project thus has a long pedigree for use to justify, to self and other, policies of imperialism, colonialism and neo-colonialism to the present (2007, 174, 177, 182-4, 186).

China is a rising power, and how it will address the issue of global climate change may increase its power and influence in the world relative to the United States. It will be a test of many factors that constitute bargaining leverage. These factors include internal adjustment of the national regime to shifting from fossil fuels towards renewables, and pulling the peoples within its sphere of influence along with it. Success in leadership in global transformation of the economy provides extensive opportunities for state leaders in this endeavor to acquire soft and hard power as models for this endeavor. Transforming the global economy to counter the global climate change threat to humanity requires direction of trillions of dollars in expenditures (Bradsher, 2016).

Inferring from realism, a state leader or analyst, in trying to determine how the international political system constrains or directs South Korean foreign policy, should determine 1) the conflicts between the Great Powers, i.e. do their respective polities collectively see a challenge, in the form of threat or opportunity towards one or other great powers; 2) the degree of intensity of perceived challenge, i.e. the intensity of perception of threat or opportunity. If the conflicts are intense, then they will shape the behavior of everyone else in international relations. So, 'what does Washington want?' and 'what does Beijing want?' will be important questions for government decision making in Seoul. The challenge of global leadership to address climate change creates new arenas for national competition, including soft power as well as economic hard power bargaining leverage. Already economically vulnerable developing countries will more urgently seek economic aid and investment and markets to meet the increasing costs of global climate change.

Today, the "war on terror" may be understood as a new form of the "civilizing mission"/ modernization post-Cold War American nationalistic universalism (see Table 4). During the Cold War underdeveloped, technologically backward societies were derivatively perceived as sources of opportunity for US influence expansion to implement global containment against the USSR (see Table 3). Today's challenge from weaker actors to the US is in the form of threat from international criminality in the face of rogue states including North Korea (e.g. Ali, 2011, Kang, 2014, Acharya, 2013, Wagner and Onderco, 2014, Jumbert 2014) (see Table 4). This criminality is in the form of rogue, mafia-type regimes using their resources to threaten the international community led by the preeminent United States. The US' institutionalized global preeminence is validated by its supposed victory in the Cold War over the expansionist, totalitarian Soviet regime in Moscow (see Table 3). Responsible leadership in an era of interdependence is an essential framework for formulating the universal ideological justification for the national foreign policy. Responsible lesser powers such as South Korea should participate in partnering with the international community to address this looming global crisis within postwar US hegemonic frameworks. The postwar US-led regional international regimes have globalized since the end of the Cold War. After the collapse of the USSR, participation in US-led globalization is perceived as the only route towards national development. The perceived appeal of the ideology of globalization as a component of US nationalistic universalism increased its bargaining leverage magnitude as well. Former World Bank President and deputy Secretary of Defense Paul Wolfowitz portrayed South Korea as a model of national development success within the US hegemonic environment (Wolfowitz, 2010). South Korea and the East Asian "miracle" economies gain soft power bargaining leverage at mastering the national development challenge as reputed experts within, for example, Latin America (Leiteritz, 2012, 67).

For Korea, being a divided nation is a source of national humiliation (Jager, 1996). South Korean nationalistic universalism is an elite-led liberalism in the context of the failure to unify the nation due to the threatening authoritarian North. Liberalism is, in other words, part of a foreign policy strategy. South Korea may participate in cooperatively leading with global actors like the United Nations. It is also useful insofar as it appeals to China as an actor that will significantly determine whether or not the Korean nation will reunify.

South Korea's commitment to global leadership in addressing global climate change is evident through it being chosen as the host nation headquarters for the Green Climate Fund. As its web portal states,

> The Fund is a unique global initiative to respond to climate change by investing into low-emission and climate-resilient development. GCF was established by 194 governments to limit or reduce greenhouse gas emissions in developing countries, and to help adapt vulnerable societies to the unavoidable impacts of climate change. Given the urgency and seriousness of the challenge, the Fund is mandated to make an ambitious contribution to the united global response to climate change ("Green Climate Fund").

Songdo, South Korea, is the host city for the GCF. The GCG is a UN "financial body … attached to the United Nations Framework Convention on Climate Change" as a channel for directing $100 billion annually to assist developing countries ("The first eight projects financed by the Green Climate Fund," 2015).

Table 5: Effect on Diplomatic Bargaining Leverage of the December 2015 Paris Agreement in Terms of Relative Increase or Decrease in Efficacy in the South Korea-China Dyadic Relationship
(Cottam and Gallucci, 1978)

Diplomatic Bargaining Lever	South Korea	China
Passive		
1. Perceived Public Attitudes	+	
2. Perceived possible great power involvement	+	
3. *Awareness of interdependence*	+	
4. Perceived long term power alterations	+	
5. Perceived economic/and/or political stability	+	
6. Perceived irrationality of leaders		
7. Perceived adverse effect on friendship		
8. Perceived likelihood of accidental war		
Active		
1. Perceived ability to give or withhold aid	+	
2. Perceived ability to influence 3rd countries	+	
3. Perceived ability to use force		
4. Perceived trade opportunities	+	
5. Perceived ability to deal with domestic political dissatisfaction		
6. Perceived transnational appeal of ideology [*Nationalistic universalism relevant here (BD)*]	+	
7. Perceived willingness to alter relationship type		

Bargaining leverage involves perceived capabilities that are assumed to be stable for purposes of dyadic diplomatic case analysis. International political strategy includes policies that shape critical trends in a target polity that determine the comparative magnitude of passive leverage. The target polity(ies) can include one's own polity, as well as an external target polity(ies). Bargaining leverage that is active is so-called because its magnitude can be manipulated in the specific dyadic diplomatic case. South Korean strategy promotes global awareness of interdependence while also providing aid and target polity guidance as a leader mastering globalization's challenges for national development.

Effective political strategy adopts foreign and domestic policies that develop bargaining leverage capabilities so that they are available to be used. In the case of passive levers, they are assumed to be passive only insofar as the dyadic case of diplomatic bargaining occurs in a relatively constricted time frame. Hence, they are considered unalterable, although they may be quite substantive and effective through skillful diplomatic application. For example, perceived possible great power involvement depends upon the intensity of conflict among the Great Powers in a particular point in time. The more intense competitive inter-Great Power conflict, the more interested the Great Powers will be in conflicts among third actors. These third actor conflicts impact on their respective perceived influence in the international political environment through soliciting outside, Great Power aid. Great Powers are more likely to be concerned about these solicitations and their respective influence if locked in intense conflict with each other. Of course, the intensity of Great Power conflict changes over years and generations. For analysis of a diplomatic case, such as persuading North Korea to cancel a pending ballistic missile test, the intensity of conflict between the US, Russia, Japan and China is taken as given. An effective long term North Korean international political strategy would aim, however, to increase the intensity of conflict between the US and China. Thereby, the survival of the North Korea regime and state likely becomes more important to Beijing, which Pyongyang can use as diplomatic bargaining leverage towards Beijing.

The component policies of an effective political strategy that focus on increasing the magnitude of passive bargaining leverages orient towards influencing the polity in the target state. The target state can be one's own polity. Strengthening domestic regime public support may be a focus, besides trends in constituency political perceptions, behavioral attitudes and motivational values in relevant foreign polities. As implied above, effective political strategies that cultivate passive bargaining leverage tend to have a longer time frame. Democratization of South Korea in 1987 arguable serves this aim, among others. Global environmental protection and trade agreements promote awareness of interdependence across polities in terms of trends in constituencies, as well as across governments. Indeed, strengthening passive bargaining capabilities can be understood as the broader context that creates greater magnitudes available for manipulation in active bargaining leverage. For example, polities that are perceived as having strong public regime support generally would be predisposed to have a higher degree of military morale and effectiveness.

Awareness of interdependence is a bargaining lever that increases in intensity for all states that may attempt to use it insofar as the international community recognizes it. The increasing salience and intensity of concern regarding greenhouse gas emissions threatening catastrophic global climate change for the entire planet is reflected in trends in international law. The development of global environmental law has accelerated rapidly since the end of the Cold War. The most notable development was the 1992 United Nations Conference on Environment and Development held in Rio de Janeiro. Subsequent global climate change mitigation milestones include the 1997 Kyoto Protocol (to the 1992 Rio de Janeiro Climate Change Convention) on Climate Change, and most recently, the 2015 Paris Agreement. The latter formally superseded the Kyoto Protocol (Clark, 2015). South Korea has attempted as a lesser power to play a high profile, leadership role in the most recent developments in global climate governance. Thereby, South Korea seeks to harness this rising level of global awareness of interdependence for its own, national security objectives in the Northeast Asian security context. Development and usage of these levers may likely impact the magnitude of others. Rising awareness of global interdependence has hard and soft power implications for economic development aspirations and even for national public sympathies and ideological attitudes. Global climate change mitigation conferences are significant in that they start from the assumption of global interdependency. Consequently, awareness of global interdependency also becomes a foundation framework for progressively developing hard and soft power bargaining leverage in other categories. To rephrase, it creates opportunities for smaller states like South Korea to demonstrate high profile transformational leadership globally (Northouse, 2012).

A PATH FORWARD

The rise of sovereignty-focused, populist nationalism in great power nation states implies understanding global environmental cooperation by approaching it within a realist framework. International environmental law combines national law applied to domestic environmental problems with international law that deals with international development issues. It consists of international agreements, rules of customary international law, general principles of law and non-binding legal instruments. In the decentralized international system of sovereign states, no single global sovereign authority exists to pronounce imperatively on the requirements and obligations of international law. The international legal system is a powerful but still comparatively primitive one (Morgenthau, 1993, 255-56). Citizens are subject to the laws of a sovereign national state which is legislated, executed, and adjudicated by specialized state organs. In contrast, sovereign governments themselves are simultaneously the subjects, legislators, adjudicators, and implementers/enforcers of international law (Crawford, 2012, 20-21). The content of international law is inferred from prevailing trends in sovereign state practice and their pronouncements of recognition of their legal obligations (Shaw, 2014, 50-90). A widely-admired international jurist, the late Antonio Cassese was the first president of the International Criminal Tribunal for the Former Yugoslavia ("AntonioCassese"; Chandler, 2006, 484). He was also the author of a widely used introductory textbook on international law. Cassese's observations regarding the content of international environmental law are referenced here. These global environmental treaties create opportunities to enhance South Korean bargaining leverage and leadership amidst Great Power political economic collaboration to address global climate change.

According to Cassese, the need to protect the environment erupted as an issue in the late 1960s, and since then it has become of crucial importance. Technological change and development together with other, traditional issues in the nature of international law, make the imposition of strict obligations on States or corporations difficult. The result is the unique features of the international regulation of the global environment: 1) "only *a few general legal principles* have evolved;" 2) "Possibly, one or two *customary rules* have crystallized on matters relating to the law of the sea;" 3) Non-binding resolutions and declarations constitute so-called "*soft law"* in order to regulate general problems 4) The conclusion of "very numerous treaties" on "specific matters." But "many of these treaties are, however, *framework agreements*;" 5) Reliance on "*supervisory and preventative mechanisms"* rather than judicial procedures; 6) Establishment of a number of "*institutional institutions*," with "the task of endeavoring to stave off further degradation of the environment." States have aimed to balance forestalling further deterioration of the environment with accommodating the very large potential costs of remedies, especially for the developing world (2005, 487).

As inferred by Cassese, the environment is now indeed a common amenity as the international community sees it, in which everyone has an interest in protecting. Various treaties and conventions have established numerous international bodies. They have adopted the role of calling upon or requesting individual States to protect the environment on behalf of the international community. These international institutions act to protect "*community values and concerns"* (2005, 487). This function substitutes for the lack of specific, readily enforceable bilateral obligations on States as part of these global environmental treaty obligations. Any State has the right to demand any other State comply with general international legal standards on the environment. The lack of specificity is due to State resistance, together with the need to entrust international bodies with the task of promoting compliance with these standards. Economic interests behind the international regulation of the environment ultimately motivate compliance. Therefore, international bodies can better act than individual States on behalf of groups or on behalf of the entire international community (Ibid., 487-88).

Cassese notes that the 1992 United Nations Conference on Environment and Development held in Rio de Janeiro ushered in a new phase of international environmental law. It linked environmental and economic issues to sustainable development and human rights concerns. Sustainable development requires the use of the world's finite resources in ways which ensure that the needs of future generations are also met. The 1992 United Nations Framework Convention on Climate Change reiterated the principle of sustainable development as the justification for this multi-lateral treaty:

> The ultimate objective of this Convention and any related legal instruments that the Conference of the Parties may adopt is to achieve, in accordance with the relevant provisions of the Convention, stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner ("United Nations Framework Convention on Climate Change").

The concluding document of the Rio Conference emphasized that states have "common but differentiated responsibilities" in view of their different "contributions" to environmental degradation (2001).

Cassese summarizes that a host of legally non-binding international instruments which UN Conferences or bodies have adopted serve as international guidelines for protecting the global environment. They all belong to the category of "soft law," along with other non-binding instruments such as codes of conduct. The principal, foundational ones: 1) The 1972 Stockholm Declaration, which the 1972 UN Conference on the Human Environment passed; 2) The 1982 World Charter for Nature, which the UN General Assembly proclaimed by consensus; 3) The UN Conference producing the 1992 Rio Declaration on the Environment and Development adopted the 1982 World Charter. Soft law lays down the standards of action which States, international organizations, corporations, and individuals should pursue. They are not legally binding, except insofar as they codify or crystallize general principals or rules, e.g. the polluter pays. But they do evince the consensus of the international community on the path which it is to take to tackle global environmental issues. They are much less binding than legal rules but they are much more than simple desiderata of individual States or organizations. They point to the "*general approach to the environment"* which States, intergovernmental organizations, national or multinational corporations, and individuals should adopt, albeit each at its own level (2005, 491).

Cassese sums up the guidelines of this general approach: 1) The international community has the obligation to safeguard the global environment for the benefit of everybody, including future generations. It is proclaimed in Principle 2 of the 1972 Stockholm Declaration. So also does the 1982 World Charter for Nature proclaim it. The 1992 Rio Declaration reiterates it; 2) Nature is an asset which the international community must protect, which the international community must do so along the lines which the various provisions of the 1982 World Charter for Nature. The 1992 Rio Declaration further developed it, in some respects. International organizations and individuals share responsibility for the protection of the environment, and therefore they should cooperate (Principles 4, 24, and 25 of the Stockholm Declaration); 3) States have common responsibilities but which the international community differentiates. The determining factor is whether or not they are industrialized or developing countries (Principle 7 of the 1992 Rio Declaration). Developing countries need financial and technological assistance, stability of prices, adequate earnings for primary commodities and raw materials as well as free flow of up-to-date scientific information and transfer of experience in environmental technologies. Standards and criteria which may be valid for the countries with a higher level of economic development may prove inappropriate, or generate an excessive cost, for developing countries (Principles 9, 10, 20 and 23 of the Stockholm Declaration, upon which the 1992 Rio Declaration further elaborated); 4) Many treaties and declarations propound the notion of 'sustainable development,' which should guide States in promoting development. Sustainable development aims to refer to 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' This definition is from the Report which the UN General Assembly adopted in 1987 by the World Commission on Environment and Development (WCED), (which the Norwegian Prime Minister, G.H. Brundland, chaired); 5) States should seek to avoid damage to the environment by taking precautionary measures (Principle 15 of the Rio Declaration); 6) "In principle," the polluter should bear the cost of pollution, "with due regard to the public interests and without distorting international trade and investment' (Principle 16 of the Rio Declaration) (2005, 491-92).

Cassese notes that the choice of this particular law-making process is only natural. It occurs in an area in which enormous economic interests are at stake. States, therefore, prefer to proceed with utmost prudence and they have prepared themselves to accept legal restrictions only by rules which they themselves have contributed to creating and which they then have duly accepted (Ibid.). Developed parties to the UN Climate Change Convention commited to transfering $100 billion annually by 2020 to the developing world to assist their transition to cleaner energy (Davenport, 2016a).

The focus on law for shaping the international bargaining context as a locus of international strategy exists here because international environmental protection overlaps with trade law. This overlap is articulated in the phrase, sustainable development. Consequently, formal and informal rules and regulations constitute its substance. These rules and regulations must have deep domestic support from their respective constituencies in order to support this focus on international law.

Cassese infers that generally, in this area, the correct consideration is that prevention of environmental damage is necessary. Collective bodies carry out this prevention on the behalf of the international community. The primary task of these bodies is to monitor the behavior of States. In the case of non-compliance, the task then should be to assist the delinquent State in remedying the damage. This point is true for large developing countries such as India, who are also rapidly expanding polluters. This body of law sees sanctions, then, as only a last resort, and being necessary in the case of repetition of non-compliance (2005, 493-94).

Cassese explains why the international community decided that little point exists in relying upon traditional judicial mechanisms in cases of persistent non-compliance. Recourse to traditional bilateral rules on State responsibility for retaliation, redress and compensation are also ineffective because: 1) The rules governing the matter are not so clear-cut and specific to determine whether or not a State has abided by an international rule or has violated it; 2) Once the breach of the rule has occurred, intervention by judicial or quasi-judicial bodies may be too late to permit remedying the problem through reparations and compensation because of the magnitude of the damage; 3) The delinquent State may be unable to pay compensation due to relative economic underdevelopment; 4) Private persons may have caused the damage without any State responsibility, for example, on account of lack of due diligence; 5) The damage may be to the entire international community rather than to one or more particular States. Due to the desire to protect policy aims of States in other areas, none of them are willing to institute judicial or other proceedings against the law-breaking State (2005, 493). The implication is hegemonic leadership of integration as the context by which to bring to bear the full range of state diplomatic bargaining leverage to bring about political economic enforcement (see Table 5). It further implies Great Powers with the requisite power capabilities to assume leadership responsibility to implement climate change obligations.

According to Cassese, the purpose of monitoring mechanisms is to verify whether States are complying with international standards as well as promoting respect for such standards. As such, it is well-attuned to the realities of the present international community. The most widespread supervisory systems have groupings into four different categories: 1) "States' self-reporting procedures;" 2) "Inspection;" 3) "So-called non-compliance procedures." States parties first adopted non-compliance procedures in 1990 with regard to the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer. Other treaties subsequently took it up, notably the 1992 Framework Convention on Climate Change; 4) "preventive global monitoring" (2005, 494).

Options which are capable of enhancing the safeguarding of the global environment as a crucial constituent part of the common heritage of mankind are the starting point of negotiations. A focus on fault or negligence is not essential for State responsibility to arise, requiring payment of compensation, even if the State acted with due diligence. Similarly, the State is responsible even for lawful actions by State agents or private agents, whenever they result in serious harm to the environment (Cassese, 2001). Again, the commitment of the capabilities of Great Power states is necessary for enforcement.

Reconciling Trade Liberalization with Environmental Protection

Cassese notes that as a means for ensuring protection of the environment, the international community has agreed to create instruments concerning trade. The 1987 Montreal Protocol on Substances that Deplete the Ozone Layer envisages the taking of trade sanctions against those States which do not comply with the agreed minimum standards (2001). Liberalization of trade focuses on abolishing State protectionism in order to promote the free flow of international trade. The need to protect natural resources and the environmental ecosystem may require strong State intervention into trade flows and production processes. Cassese notes that capital exporting countries are more likely to invest in areas of the world which already have substantial industrialization. These areas are more attractive to investment than in areas with scant, or absent industrialization and ancillary facilities in developing countries (2001, 395-96).

Cassese notes that the liberal, free-market approach which primarily the USA advocates is clearly inappropriate to the development needs of developing nations. It is incongruous due to the latter's economic structure and conditions. This liberalization principle grounds itself on the liberal theory of free trade and free competition. In particular, the abolition of trade tariffs and other devices that distort the world market is its core. Yet in fact, the developing world requires "discriminatory treatment," i.e. treatment which takes account of their specific conditions. Therefore, this trade must be different and more advantageous than the trade occurring between industrialized States, to permit 1) "stabilization of the price of their commodities, so as to avoid price fluctuations and declines which occur at the detriment of the producers;" 2) "trade preferences and concessions," particularly, "trade barriers on their imports and preferential treatment for their exports." The form would be "most-favoured-nation treatment," but, "without any concession to developed countries in return;" 3) "foreign investment", particularly with the aim of promoting "economic activities in areas other than production and export of local raw materials;" 4) "economic assistance," particularly "the rescheduling or even cancellation of foreign debt;" 5) "transfer of modern technology;" 6) "training of skilled workers" (2005, 506).

These six points correspond with the requirements for green, sustainable development in the 21st century developing world which the Global Climate Fund supports. Yet, they may require state intervention that conflicts with the neoliberal, "Washington consensus." The latter is arguably a manifestation of American nationalistic universalism proclaiming modernization (Chandler, 2006, 475, Mitchell, 2007, 715-16). It is part of a long Anglo-Saxon tendency spawned in the British Empire (Vucetic, 2011, 260-61). In terms of understanding Chinese behavior regarding climate change, realism would point towards China's efforts to change the international political economy away from the US-unicentric model. It is inseparable from an analysis of the development imperatives confronting the developing world. From China's perspective, it has been successful because of its aspiring great power capabilities while still a developing country (Brasher and Davenport, 2015). Hence, China is demanding changes in the Bretton Woods and other Cold War-era world development institutions. When its concerns as an emerging superpower are not met, then it moves to create its own institutions, such as the Asian Infrastructure Investment Bank (AIIB) (Wildau, 2015).

Cassese notes that developing countries have entreated the financial and economic institutions which the US and its allies established after the Second World War to adjust their policies. The 1944 creation of the World Bank at the Bretton Woods Conference as an intergovernmental organization established it as corporate in form, with the member states owning all of its capital stock. On the basis of the quotas which the Bretton Woods conference established for participating in the IMF, they established the same quotas for participating in the International Bank for Reconstruction and Development (World Bank). Later, it became a UN Specialized Agency. The Board of Governors of the World Bank is the central organ of the IBRD. It consists of a Governor and an alternate whom each member State appoints. It takes decisions according to a "weighted voting" system (and it is the same procedure for the decision-making in the IMF's Board of Governors as well). Each member receives a vote weight in proportion to a country's quota (i.e. allocation of resources to the World Bank's funds) (2005, 511). The voices of the wealthiest members is stronger than the voices of the other members, with the US weighted vote basically giving it veto power ("America's Flawed Strategy" 2015).

The Board of Governors can and has vested many of its powers to the Executive Board. It at present consists of 22 Directors. The Directors elect the Bank's president, which is, according to convention, a US national. "The encouragement of the development of productive facilities and resources in less developed countries" describes the statutory goals of the Bank. Since its earliest days, the bank has pursued this goal. The US, through programs such as the Marshall Plan, in effect overtook the World Bank in the pursuit of the Bank's other statutory goals. The US aimed to recover and refit European economies after the Second World War (Cassese, 2001, 403). The World Bank then came to focus on the development needs of the developing world.

China attempts to utilize intergovernmental organizations to address international development issues regarding the developing world. South Korea seeks to build its association with China as an international hub mediating between the developing world and China (Mundy, 2015). Cooperation is close between the South Korean Ministry of Finance and the World Bank. This cooperation is illustrated by the World Bank's "Online Learning Campus" webportal, offering online courses and webinar content on a wide range of topics relevant to development. The running head of the webportal reads "In partnership with Republic of Korea Ministry of Strategy and Finance." This header's appearance is recent, emerging since the current World Bank president, Dr. Jim Yong Kim, was appointed in 2012. Dr. Kim, a Korean-American born in South Korea and raised in the US, has been reappointed in his position while undertaking far-reaching change at the World Bank. China supported the reappointment of Dr. Jim Yong Kim to a second, five-year term (Picker, 2016). Dr. Kim has received support from the main donors to the World Bank for restructuring the World Bank to focus on functional development sectors. It represents a shift away from the previous focus on geographic program orientations ("A Non-Contest at the World Bank," 2016). The shift to global public policy issues like public health and governance and climate change is partly a response to the adundance of global investment capital already available.

Dr. Kim has urged the world to adopt a carbon pricing system. He restated the World Bank's support for it at the December 2015 signing of the in Paris of the agreement to reduce carbon emissions to slow global climate change (Davenport, 2016b). The World Bank established a Carbon Finance Unit to assist developing countries in establishing emssions trading schemes (Davenport, 2016b). North Korea signed the Paris Agreement on April 22, 2016 (Ri, 2016). South Korean energy economist Dr. Hoesung, Lee won the competitive election to become chairperson of the Intergovernmental Panel on Climate Change (IPCC). The election occurred at an intergovernmental representative meeting in Dubrovnik, Croatia in October 2015 (Darby, 2015). The position is portrayed as the most senior UN climate science position ("Hoesung Lee," 2015).

China has amassed sufficient investment capital that it founded another, regionally-focused institution, the Asian Infrastructure Investment Bank, despite US resistance. The UK, Australia, Germany and South Korea are among its founding members, but the US and Japan remain outside (Perlez, 2015). The AIIB, as well as other specifically Chinese banks, have demonstrated a willingness to invest in coal-fired (i.e. exceptionally polluting) power generation plants in poor, developing countries (Forsythe, 2015). Yet, the first president of the AIIB, Chinese official Jin Liqun, has stated that the AIIB would be committed to environmental concerns in supporting projects (Anderlini, 2016). Dr. Jim Yong Kim stated that the AIIB will be an "important new partner" for the World Bank, while China will have veto power in the AIIB (Clover and Wildau, 2015).

The Election of US President Donald J. Trump

Seoul aimed to join the Trans Pacific Partnership (TPP), with its environmental protection obligations, and applauds the Chinese proposal for a Regional Comprehensive Economic Partnership (RCEP) (Bland et al., 2013, "Neighboring Countries Gain from China's FDI," 2014, "Trans-Pacific Partnership: Labour and Environment," n.d.). The prospective RCEP is foreseen comparatively to deemphasize human rights and environmental obligations due to the greater diversity in levels of development among likely signatories (Chen, 2016). Having a bilateral US free trade agreement (FTA) in force since March 2012, South Korea appeared to hedge by delaying to join as a founding member of the now defunct TPP (King & Spalding LLP, 2015, "S. Korea Undecided on Joining TPP," 2013). Japan, which does not have a FTA with the US, joined the TPP negotiations as the last founding member participant in 2013 (Hancock, 2013). In response to Japan's move, Seoul applied but agreed to wait until after the TPP treaty was ratified by its 12 founding members (Palmer, 2013, Hess, 2013). The TPP became subject to ratification after signing on February 4, 2016 ("Trans-Pacific Partnership," n.d.). This ratification is now unlikely; US President Donald J. Trump withdrew his predecessor's signature by executive order on January 23, 2017, fulfilling his presidential campaign pledge (Baker, 2017). The December 2015 China-South Korea FTA has faced new informal barriers to Korean exports to China ("Eyes on Korea-China FTA Meeting Amid THAAD Tension," 2017). Seoul agreed in July 2016 to host deployment of the advanced Terminal High Altitude Area Defense (THAAD) US anti-ballistic missile system ("With THAAD Conflict Brewing," 2017). Officially it is a response Pyongyang's weapons of mass destruction programs, but Beijing declared it as a threat to its own military security ("South Korea: No Delay for THAAD missile Deployment, Despite Beijing's Objections," 2017).

Peter Navarro, a senior trade official in the Trump administration, condemned the US-South Korea FTA during the campaign ("Trump's TPP Abandonment Fans Trade Fears in Korea," 2017). Immediately after Trump's inauguration, a White House website post declared, "We will also develop a state-of-the-art missile defense system to protect against missile-based attacks from states like Iran and North Korea" ("Making Our Military Strong Again," 2017). If US-China conflict intensifies, then pressures for US ratification of a resurrected version of the TPP may increase. Yet, Trump simultaenously announced that with the end of new US multilateral trade agreements, the US would consider only bilateral trade agreements only "with individual allies" (Baker, 2017). If so, then it would appear to correspond with the traditional US "hub and spokes" approach to US security strategy in East Asia since the end of the Second World War (Cha, 2009).

This study's implications reinforce the desirability of South Korea joining both the RCEP and a resurrected TPP, should the latter emerge. Thereby, Seoul would reinforce its position as a global institutional sustainable development network nexus point between these competing superpower-hegemonies. It would also be a conceivable goal that South Korea as a middle-ranking power might pursue as part of a higher-level aim of alleviating intensification of conflict between Beijing and Washington. Long term intensification of conflict between Beijing and Washington will likely benefit Pyongyang.

CONCLUDING COMMENTS

This paper aimed to outline a political strategic approach to growing South Korea's diplomatic bargaining leverage in international relations. It critically elaborated on hard, soft and smart power, hedging, as well as global legal regime networks, hegemony and strategic behavior to comprehend global climate change alleviation policy. The South Korean authorities adopted a global green commitment within their national security through economic development strategy. This policy commitment increased South Korea's hard and soft power capability in diplomatic negotiations, particularly with regard to rising China. China's rise in the heretofore US-dominated global regime system exploited political economic opportunities for integration in the global production chain. Anti-pollution imperatives have expanded to include global trends towards commitments to confront a menacing universal challenge: human-induced climate change. South Korea's policies have exploited global formal and informal institutional leadership opportunities that have consequently emerged. Navigating the rise of China to address this global challenge requires an essential focus on nation state capabilities and the national interest as articulated by the nation state. As such, foundational realist concepts continue to provide critical perspectives to understand these past, present and future trends. These concepts point to the importance of focusing on nation state Great Power economic modernization interests and their incentives to cooperate in trade and environmental regulation. It motivates cooperation in a world that will continue to be dominated by their respective spheres of influence.

The study's limitations lie in the challenge to accommodate state-level sovereignty-focused populist nationalist reactions to globalization. The successful Donald J. Trump campaign for US president spotlights the fragility of international cooperative political economic and environmental protection regimes. Should the United States withdraw from the 2015 Paris Agreement, hard power's salience in international relations will likely increase, and South Korea's global leadership potential will decline. This study's framework will have difficulty maintaining its relevance in an international community of state actors with international strategies more reminisicent of the pre-1945 era. In response, the Chinese leadership has rhetorically defended vigorously economic globalization including its willingness to provide global leadership to reduce greenhouse gas emissions (Tabuchi, 2017).

Currently, China is engaged in an expansionary foreign policy strategy. Despite its current behavior in the South China Sea, it is not yet aiming to imperialistically revolutionize the status quo; however, it seeks recognition of equality with the US. Western foreign policy strategy should not assume that expansion is necessarily aggressive since global competition has been increasingly soft power based. A containment strategy may not be most appropriate for China. At worst, it risks creating a self-fulfilling prophecy. Beijing may view itself as conforming to international norms in demanding rectification of the Pacific regional territorial sovereignty legacies of Japanese imperial aggression. Containment actions against China may be perceived as efforts at continuing subjugation. China's response would be more belligerent, thereby risking confirmation of the misperception of Chinese foreign policy motivation as imperialist. Certain constituencies within Beijing may indeed see opportunity to expand influence over perceived lesser, post-European imperial-legacy Asian states. International law and legal mechanisms are useful because they make identification of the value motivations for a state's foreign policy behavior more readily discernible. A state that intentionally disregards international conventions is more likely led and primarily motivated by constitutencies promoting militant, expansionary, imperialist intent. Emerging states that work within existing conventions are motivated by status quo-oriented needs/motivations.

South Korea's political strategic approach as a lesser power is to participate as a neutral political economic actor in creating and institutionalizing mechanisms for global public policy governance. By satisfying the US and China, it acquires bargaining leverage over them and other relevant actors through promotion of awareness of interdependence through global governance. International environmental protection within the context of sustainable development is a critical global governance issue. South Korea has utilized its recognized phenomenal success in development with a public commitment to provide subaltern leadership. South Korea has exploited these opportunities as a relatively small state to gain greater global diplomatic bargaining leverage. Its interests focus on protecting its achievements ultimately by neutralizing the North Korean national security challenge. The rise of sovereignty-focused, populist nationalism in the US, China and elsewhere is a potential destabilization of the global regime system. It threatens South Korea's international political strategy. It illustrates again that South Korea responds to and exploits international regimes that are created by the Great Powers.

The shock of the Brexit vote and the Trump US presidential election victory continue to reverberate in the academy as well as in the media. Further research should focus on the unique internal, nationalist factors that drive each state's respective foreign policy strategic behavior. These differentiating internal factors as independent variables are a focus of neoclassical realist approaches to critiquing international strategy to contribute to conflict resolution. National political institutional particularities mediate nationalist populism's impact on American and Chinese strategic behavior. Morgenthau's –as if- assumption of power optimization state motivation is problematic for research on globalization's impact on national regime legitimacy and policy behavior. Great power imperialist behavior under regime authorities that act as if the external political environment requires strong, decisive leadership that only they can provide has led to global hegemonic war. The world arguably has not witnessed a intensively imperialist great power since the early 1940s. How such an actor would behave in the nuclear era amidst twenty-first century globalization, both towards its lesser allies as well as towards more equal powers, requires elucidation.

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BIOGRAPHY

Benedict E. DeDominicis, Ph.D. (University of Pittsburgh, BA Ohio State) is an associate professor of political science at the Catholic University of Korea in the International Studies Department. He was on the faculty at the American University in Bulgaria, 1994-2009. He has published in *Review of Business & Finance Case Studies*, *The International Journal of Interdisciplinary Global Studies* and *The International Journal of Interdisciplinary Organizational Studies*. He can be reached at the Catholic University of Korea, International Studies Department, 43 Jibong-ro, Bucheon-si, Gyeonggi-do 14662, Republic of Korea, bendedominicis@gmail.com.

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MANAGER'S PERCEPTION ABOUT INNOVATION WITHIN THE SMES IN MONTEMORELOS, NUEVO LEÓN, MÉXICO

Karla Saraí Basurto Gutiérrez, Universidad de Montemorelos
Karla Liliana Haro-Zea, Benemérita Universidad Autónoma de Puebla
Verónica Hernández López, Universidad de Montemorelos

ABSTRACT

This research studies the perception of innovation by managers of small and medium enterprises in Montemorelos, Nuevo León. Small and Medium Enterprises (SMEs) are the engine that drives the economy in Mexico and play a fundamental role in the creation of new sources of income. Therefore, research regarding SME.s is important. Montemorelos is a municipality of Nuevo León that depends economically on SMEs. As several authors have mentioned, one of the success factors of SMEs is innovation. In this research we examine the perception of the administrator regarding innovation. We analyze our results based on gender, type of company and level of education. It is quantitative, descriptive, cross-transversal research. Sample selection was done using the convenience method to meet certain criteria. Some 80 SME managers were surveyed in their areas of work. For the data collection, an instrument was used to measure self-perceived innovation by the managers. The instrument consisted 15 items with a scale of 1 to 7 and a reliability of .919 alpha of Cronbach. The study showed no difference in the perception of innovation based on gender, type of business and level of education. It was also found that most Small Business Managers (SMBs) consider the complaints and suggestions of their customers to improve their product or service.

JEL: M13, M16, M19

KEYWORDS: Strategy, Innovation, Small and Medium Enterprise (SMES)

INTRODUCTION

The purpose of this research is to identify the perception of innovation by managers of small and medium enterprises in Montemorelos, Nuevo León. Specifically, we examine the relationship between gender, business type and education level of managers. We note that innovation is an essential element for firms because it helps increase company profitability. Basurto Gutierrez (2016) shows that innovation is a good construct to explain business development. Some authors argue that opportunities arise at any time, but only the sectors that develop innovation can take advantage of it and obtain the best benefits. It is essential to emphasize that we live in a globalized and constantly changing era, where customers frequently seek new products. This implies that SMEs must operate under the same market dynamics. Innovation is not always using technology but applying knowledge that adds value to a product or service. Hence the importance of knowing the degree of perception regarding innovation by the managers of small and medium-sized enterprises (SMEs) in Montemorelos, Nuevo León is important. Innovation helps the company evolve quickly according to the demands of customers. Increasing competition and cost reductions make innovation essential to improve the positioning of the company.

Montemorelos, Nuevo León, is located 82 km southeast of Monterrey and according to figures from the National Institute of Statistics, Geography and Information Technology (INEGI, 2015) has a population of

60,829 inhabitants. Montemorelos is known for its citrus industry. It holds the title of "citrus capital" of Mexico. It also has a variety of tourist attractions such as the General José María Morelos y Pavón monument and the Montemorelos planetarium. The planetarium is unique in its class because it has clockwork, physics and astronomy, the bioparque estrella, as well as XVIII, XIX and XX century buildings. In addition, two Franciscan missions Gildeleiba and Escobedo since 1715, established the chapel of San Mateo del Pilon in 1798. Other attractions include the majestic temple of Sagrado Corazón de Jesús, the Municipal Palace, hacienda hulls, beautiful houses and buildings with the hallmark of Northeast of Mexico (Montemorelos Municipal Government, 2016). The research is organized as follows: in the literary review section the concepts of innovation, their importance and dimensions are discussed, later we present the methodology utilized, an analysis of normality, a descriptive analysis of the demographic variables and the analysis of the hypotheses. The paper closes with some discussion and conclusions.

State of the Art

According to Schumpeter (2002) economic development is driven by innovation through a dynamic process in which new technologies replace old ones, helping companies see innovation as a tool to gain benefits and improve their competitiveness in the market. Hernández, Yescas and Domínguez (2007) comment that innovation is a critical factor to identify and efficiently take advantage of opportunities of the moment for the survival and success of companies. Likewise, the growing and sustained success of the company is always dependent upon its innovative capacity. Madrid Guijarro and García Pérez de Lema (2008) suggests that innovation and development lead to increased profitability and growth of the company. According to Chesbrough's (2004) open innovation model, the future of the company is something that is created, invented and innovated with all its stakeholders (employees, partners, customers, local communities, shareholders, suppliers). Companies are no longer able to tackle the entire innovation process themselves and must rely on external resources (intellectual property, ideas, products, people, institutions) to be integrated into their own innovation chain. At the same time, the results of their work can be useful for other companies and in other markets. This offers a way to profit from that innovation that is unsuccessful for the primary objectives of the company.

There are different ways of defining innovation; Seaden, Guolla, Doutriaux, and Nash (2003) argue that innovation is the implementation of new processes, products or management approaches to increase efficiency and effectiveness in the company. Van de Ven (1996) defines innovation as the development and implementation of new ideas, using the following four factors: new ideas, people, transactions and institutional context. Tidd (2001) examines innovation and organization. This 2001 work proposes that best practices of innovation vary according to a series of factors. Thus, it is necessary to identify organizational configurations more suitable for specific environments. On the other hand, Olson, Slater and Hult (2005) proposes a global measurement for the results of the organizational performance by means of perceived performance with respect to the company and the competitors. Through perceived performance, it is possible to obtain qualitative and quantitative results that are important for the organization.

There is no doubt that innovation is an important factor for SMEs; According to Wilson (2003), innovation is crucial for long-term economic growth of a country, since it stimulates the productivity and the competitiveness of the companies, thus allowing a reduction of prices on goods and services offered by these companies. Therefore, to compete, companies must create new products, services or processes. That is, they must adopt innovation as a way of corporate life. Lar and Mustar (2001) points out that innovation implies rupture, a predisposition favorable to change and permanent adaptation. It implies, therefore, to assume risks and responsibilities. It is necessary to create an innovation-oriented culture model that can effectively manage constant change. Innovation is important but changes for companies always produces barriers or challenges that need to be crossed in so perming improvement. Innovation management is associated with the management of different factors that influence organizational performance.

Hill and Rothaemel (2003) explain that implementation of radical innovations by overcoming organizational barriers, such as boosting absorptive capacity, eliminating inertia or routine actions, encouraging the search for ideas and exploring other market niches, are ways to overcome these types of barriers. Innovation has been measured in many ways. For Etzkowitz (2002), innovation must take into account the following factors: basic research, applied research, technological development, marketing and product launching, linking universities and public research organizations, companies and administrations. Innovation is fundamental condition of SMEs as a vital differentiator with respect to their competition. Rogers (1983) provides an adequate framework for explaining the process of innovation in organizations and describes which factors influence it. Rogers (1983) also identifies phases within the process which are: knowledge, persuasion, decision, implementation and confirmation.

Boer and During (2001) provide a more complete classification of innovation. They use different classification criteria, such as the object of innovation that includes product and process innovation, its incremental or radical impact, the effect of innovation continuist or rupturista and the scale in which it is realized, its origin and the nature of the innovation.

Águila Obra and Meléndez (2010) use the following factors to measure innovation in the company: (a) context of innovation, (b) management innovations, (c) business innovations, (d)product innovation, (e) process innovation, (f) the use of ICT in the company, (g) the purpose of using the internet in the company, (h) the level of internet adoption, (i) innovation activity, (j) the result of innovation activity and (k) public financial support for innovation. Benito-Hernández, Platero-Jiménez and Rodríguez-Duarte (2012) used seven factors to measure innovation in small and medium-sized enterprises. The factors are: (a) innovation, (b) sector innovation, (c) sector dynamics, (d) microentrepreneur profile, (e) resources (financial, cultural, organizational), (g) experiences and strategy.

METHODOLOGY

To define the methodology, we examine the following research question: Is there a significant difference in the degree of innovation perceived by the managers of SMEs in Montemorelos, Nuevo León according to different demographic variables? The hypotheses of investigation are:

> *H_1: Is there a significant difference in the degree of innovation perceived by managers of SMEs in Montemorelos, Nuevo León by gender?*
>
> *H_2: Is there a significant difference in the degree of innovation perceived by managers of SMEs in Montemorelos, Nuevo León according to business type?*
>
> *H_3: Is there a significant difference in the degree of innovation perceived by managers of SMEs in Montemorelos, Nuevo Leon according to level of education?*

This was a quantitative, descriptive, cross-transversal research (the data was collected in a determined period). Information was obtained by means of a questionnaire applied in the month of October, 2015. The sample selection was made using the convenience method to meet certain criteria. Some 80 SME managers were surveyed in their areas of work. A data collection instrument was used to measure self-perceived innovation by managers of SMEs in the center of Montemorelos, Nuevo Leon, which was elaborated by Basurto Gutiérrez (2016). This instrument helped diagnose if the SME is innovative and if the innovation influences vary according to demographic variables. The instrument consisted of 15 items with a scale of 1 to 7 and a reliability of .919 alpha of Cronbach. The research instrument was structured considering the following areas: (a) Innovation in the value chain, (b) innovative culture, (c) commitment to actions of change, (d) innovation strategies. The applicable variables of the present investigation are show in Table 1.

Table 1: Operational Definition of Research Variables

Variables	Definition	Items	Unit of Measurement
Dependent	Innovation	Take into account customer complaints for product or service improvements. Systematically take advantage of customer feedback. Designing new products or services according to the actual needs of clients. Administrative commitment to the change activities. Fostering the creativity of its workers. Systematically improve production processes. Systematically develop new products or services. Proactive in anticipation of market changes. Use new strategies as a key factor for success. Evaluate all staff ideas for the development of the company. Invest systematically in new technologies. Allocate the necessary financial resources to the exchange actions. Systematically investing in new technologies. Assigning the necessary human resources to actions of change. Assigning a responsible manager in innovative matters.	Instrument designed on the basis of 15 items
Independent	Gender Business type Level of education	Análisis descriptivo de las variables demográficas	

To measure the degree of self-perception of innovation by managers of companies of Monterrey, Nuevo Leon the average of 15 items was obtained. The variable was considered as metric. To formulate the conclusions of this study, the following equivalence was determined for the scale: 1 = Nothing innovative 2 = Very innovative 3 = Not very innovative 4 = Undecided 5 = Something innovative 6 = Very innovative 7 = Totally innovative

The Kolmogorov-Smirnov test was applied to identify the extent of innovation variable normality. The p value was found to be less than 0.05. As the distribution is not normal the distance of Mahalanobis was calculated and it was found that two of the data were extreme data so they were eliminated and the normality test was applied again, producing a *p-value* was greater or equal to 0.05. Therefore, the distribution of the innovation variable was considered normal.

RESULTS

To determine the self-perception of managers' innovation, a descriptive statistics analysis was done using SPSS version 22 software. A t-test for independent samples was performed to find the differences in self-perception of innovation between gender and company type managers. For the self-perception of innovation regarding the academic level, we used the one-way ANOVA statistical test.

Figure 1 shows the distribution according to gender of the administrative staff. Of the 78 managers who answered the survey, 53.8% are women and 46.2% are men. Figure 2 shows business type to which the administrators who participated in this research belong. Some 38.5% of the respondents have a service company and 61.5% have a commercial company.

Figure 1: Respondents by Gender

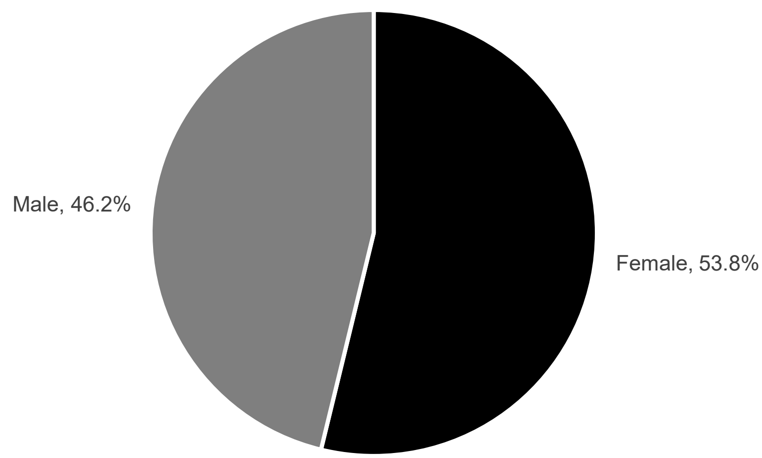

Figure 1 shows the sample distribution according to the managers´ gender.

Figure 2: Respondents by Business Type

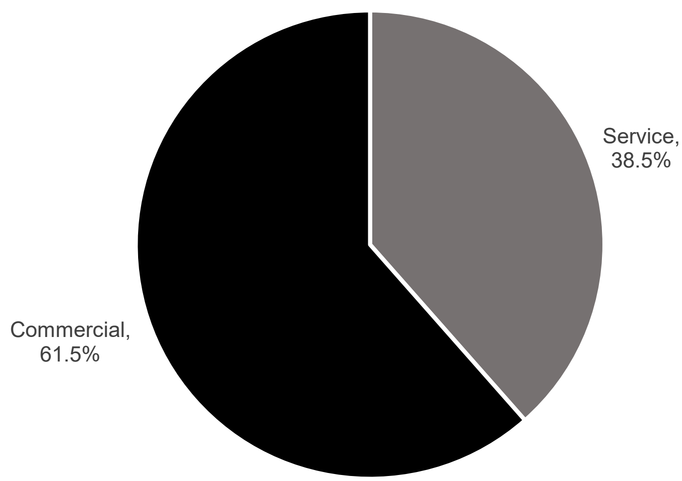

Figure 2 shows the business type of the managers that participated in the research..

The level of education is shown at Table 1. Some 17.5% of mangers that were part of this research finished high school, 32.5% finished upper secondary education, 23.8% had a technical career and 26.3% have a bachelor's degree.

Tabla 1: Level of Education

	Frecuency	Porcentage
Middle School	14	17.9
High school	25	32.1
Technique	18	23.1
Bachelor´s degree	21	26.9
Total	78	100.0

This table shows the managers level of education that participated in this research.

Null hypotheses

H_{01}: There is no significant difference in the degree of innovation perceived by the managers of SMEs in Montemorelos, Nuevo León according to their gender.

The independent variable considered in this hypothesis is gender. The dependent variable is the degree of innovation. To analyze this hypothesis, we used the statistical t-test for independent samples. The Levene F statistic was analyzed and a *p* value equal to 0.010 was observed, so it we assumed the population variances are not equal. Observing the population variance is not equal, we found the statistical value *t* equal to 0.270 with *df* equal to 70,887 and *p* equal to 0.788. Since *p* was higher than 0.05, we accept the null hypothesis (see Table 2). The arithmetic mean of the women was 4.14 and the arithmetic mean of men was 4.09 (see Table 3).

Table 2: T-Test for Gender

		F	Sig	T	Gl.	Sig. (Bilateral)
Innovation	Equal variances	7.020	0.010	0.262	76	0.794
	No equal variances			0.270	70.887	0.788

This table shows the results of t-tests applied to the gender variable showing that there is not a difference of perception between manager according to their gender.

Table 3: Arithmetic Mean for Gender

Gender		N	Mean	Standard Deviation	Standard Error Mean
Innovation	Female	42	4.1452	1.05396	0.16263
	Male	36	4.0917	0.67965	0.11328

This table shows the arithmetic means according to gender

H_{02}: There is no significant difference in degree of innovation perceived by managers of SMEs in Montemorelos, Nuevo León based on type of company. The independent variable considered in this hypothesis is the business nature. The dependent variable is the level of innovation. To analyze this hypothesis, we used the statistical t-test for independent samples. We analyzed the Levene F statistic which produces a *p* value equal to 0.689. We assumed that the population variances are the same. The statistical value *t* equals -0.625, *df* equals 76 and *p* equals 0.534. Given that *p* was greater than 0.05, we retain the null hypothesis of no significant difference in the business type and the innovation of SMEs in Montemorelos, Nuevo Leon (see Table 4). The arithmetic mean of the service companies was 4.04 and the arithmetic mean of the commercial companies was 4.17 (see Table 5).

Table 4: T-Test for Type of Company

		F	Sig.	T	Gl	Sig. (Bilateral)
Innovation	Equal variances	0.161	0.689	-0.625	76	0.534
	No equal variances			-0.632	64.019	0.529

This table shows the result of a t-test apply to the type of company variable showing that there is not a significant difference of perceptions of the manger according to the company type.

Table 5: Arithmetic Mean for Type of Company

Type of Company		N	Mean	Standard Deviation	Standard Error Mean
Innovation	Service	30	4.0400	0.87162	0.15914
	Commercial	48	4.1708	0.91581	0.13219

This table shows the arithmetic means according to the gender

H_{03}: There is no significant difference in the degree of innovation perceived by managers of SMEs in Montemorelos, Nuevo Leon according to education level. The independent variable is the schooling and the dependent variable is the degree of innovation. To analyze this hypothesis we used the one-way ANOVA test. We found that p is equals 0.926 with a value of F (3.74) = 0.155. The results show that the model does not significantly explain observed variation of the dependent variable degree of innovation of managers. Based on the result, we retain the null hypothesis (see Table 6). The arithmetic means were the following: secondary schooling, 4.00; Preparatory schooling, 4.10; Technical schooling, 4.13 and undergraduate schooling, 4.20 (see Table 7).

Table 6: ANOVA Results of Level of Education

	Squares Sum	Df	Quadratic Average	F	Sig.
Between Groups	0.386	3	0.129	0.155	0.926
Within Groups	61.381	74	0.829		
Total	61.767	77			

This table shows the results of the ANOVA test for level of education. The results indicate there is not a different of perception between the managers according to their education.

Table 7: Arithmetic Mean for Level of Education

Level of Education	N	Mean	Standard Deviation	Standard Error Mean
Secondary	14	4.0000	0.84671	0.22629
Preparatory	25	4.1000	0.97425	0.19485
Technical	18	4.1389	0.93440	0.22024
Under graduate (Licenciatura)	21	4.2095	0.84965	0.18541
Total	78	4.1205	0.89564	0.10141

This is the arithmetics means according to their level of education.

Table 8 shows the highest and lowest arithmetic means of the questionnaire statements. The highest means are the following: "Take into account customer complaints for product or service improvements" with 5.08, "Systematically take advantage of customer feedback" with 4.83 , "Designing new products or services according to the actual needs of clients" with 4.44, "Administrative commitment to the change activities" with 4.32 and "Fostering the creativity of its workers" with 4.28, while the lowest mean are "Assigning a responsible manager in innovative matters" with 3.18 "Assigning the necessary human resources to actions of change" with 3.29 "To systematically carry out improvements in the areas of marketing" with 3.54, "Assigning the necessary financial resources to the actions of change" with 3.81 and" Systematically investing in new technologies "with 3.88.

Table 8: Arithmetic Mean

ITEM	N	MEAN
Take into account customer complaints for product or service improvements.	78	5.08
Systematically take advantage of customer feedback.	78	4.83
Designing new products or services according to the actual needs of clients.	78	4.44
Administrative commitment to the change activities.	78	4.32
Fostering the creativity of its workers.	78	4.28
Systematically improve production processes.	78	4.24
Systematically develop new products or services.	78	4.24
Proactive in anticipation of market changes.	78	4.19
Use new strategies as a key factor for success.	78	4.17
Evaluate all staff ideas for the development of the company.	78	3.98
Invest systematically in new technologies.	78	3.88
Allocate the necessary financial resources to the exchange actions.	78	3.81
Systematically investing in new technologies.	78	3.54
Assigning the necessary human resources to actions of change	78	3.29
Assigning a responsible manager in innovative matters.	78	3.18
Innovation	78	4.12

This table shows the arithmetic means of each of the items of the survey.

DISCUSSION

Overall, we found that SMEs in Montemorelos, Nuevo León take innovation into account when they listen to their customers' complaints to improve the product or service they offer and when they systematically take advantage of the suggestions of improvement provided by their clients. The Oslo Manual defines an innovative company as one that has developed products or processes that incorporate technological improvements of a radical or incremental nature in a given time of reference. From our results, SMEs in Montemorelos are *somewhat innovative* according to the questionnaire used for this research. We found that gender, business type and education level do not make a significant difference in innovation compared to the results of Basurto Gutiérrez (2016), who analyzed the autoperception of managers from SMEs in Monterrey, Nuevo Leon. They did not find any different either. However Danilda and Thorslund (2011), found that gender is important for innovation and problem solving because they comment that teams with balanced participation of women and men duplicate the possibilities of overcoming performance expectations, compared to only male or female groups.

CONCLUSIONS

The purpose of this research is to identify perceptions of innovation by the managers of small and medium enterprises in Montemorelos, Nuevo León. We explore perception differences based on gender, business type and education level of managers. We found that gender, business type and education level are not significant for SMEs innovation and that most SMEs take into account the complaints and suggestions of their customers to improve their products or service. Managers were defined as "*somewhat innovative*". We summarize that it is necessary to promote innovation in SMEs because to compete in the market we need to improve what we do. There is a need for innovations that promotes greater productivity for the growth of SMEs. Evaluating innovation in SMEs helps identify areas of opportunity that enable them to improve their ability to offer better products to the market and efficiently use information and technology to improve processes. Finally, this research presents documentary support accounts for the importance of innovation in the achievement of SMEs' objectives. Innovation is a way of boosting revenues, relations with stakeholders and maximizing the execution of processes. This research is limited because is missing the clients perspective of the products or services. Further research is recommended to survey the managers, employees and clients perspective to identify the extent of innovation.

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BIOGRAPHY

Karla Saraí Basurto Gutiérrez, is a Profesor of Universidad de Montemorelos (UM), works in the International Business area and have a PhD on a Business Administration by the Universidad de Montemorelos E-mail: kbasurto@um.edu.mx.

Karla Liliana Haro-Zea, is a Research Professor of the Benemérita Universidad Autónoma de Puebla (BUAP), Phd in Strategic Planning and Technology Management by the Universidad Popular Autónoma del Estado de Puebla (UPAEP). Candidate for National Researcher. Postdoc in Sustainable Development E-mail: kharozea@gmail.com.

Verónica Hernández López, Student of the degree in International Business, in the Faculty of Business and Legal Science E-mail: ver_ohdz@hotmail.com.

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CAREER ADVANCEMENT AND CHALLENGES OF SAUDI WOMEN GRADUATES

Alawiya Allui, Prince Sultan University, Riyadh, Saudi Arabia
Kamilah Kamaludin, Prince Sultan University, Riyadh, Saudi Arabia

ABSTRACT

This paper reports on the views that woman graduates have about their career prospects, and the expectations and challenges they experience between their work and personal lives. The purpose of this paper is to address the research gap on Saudi women graduates and to demonstrate how gender, work, and family factors influence the career advancement of these graduates. In order to explore and describe these factors a structured survey was conducted using a random sample from a database of the Alumni of one private university in Saudi. By exploring and describing the destination of female graduate leavers and understanding the reason for women's (un)employment, we aimed to unfold the underlying challenges, constraints and barriers for Saudi women to enter the workforce.

JEL: M0

KEYWORDS: Career Development, Culture, Work, Family Life, Gender, Saudi Arabia

INTRODUCTION

Several studies and report have noted the level of highly skilled qualified women in the GCC far exceeds the level of employment. Extensive education has been made available to women in Saudi Arabia though these skills are not fully utilised in the workforce. However, despite the increasing enrolment rates in tertiary education in the Kingdom, women graduates are failing to achieve the same levels of success in career progression as their male counterparts. Women constitute 49.1% of the total population (Alsaleh, 2012) and latest statistics show that and women make up 58% of college students yet women compose only 15% of the Saudi workforce (Doumato, 2010). Saudi females' work activities have carried out in exclusively women circumstances, as it maintains a strict code of gender segregation in public places (Guthrie, 2001). Barriers, such as gender discrimination, continue to keep women numbers stagnating at lower levels in the labor force (Metcalfe, 2006, 2007, 2008; Moghadam, 2004). In addition, women who aspire to career progression are also constrained by family and work-related issues. Not only is the status of women in the labor force at an extreme disadvantage, it has also been neglected in terms of research. Thus, the paucity of studies on the position of women graduates in this region underscores the very limited knowledge available on the experiences women graduates face in their career development (Metcalfe, 2007, 2008). Specifically, studies addressing the impact of the role of the family and gender stereotypes have been minimal and largely theoretical, with little diversity or depth (El Ghannam, 2002; Hamdan, 2005). The aim of this paper is to explore some of the issues surrounding women graduates in Saudi labor force and the perceptions of these graduates regarding gender stereotyping in terms of education (MENA, 2007); their personal aspirations regarding careers, marriage, and having children (The World Bank, 2006); and how these factors may hinder their career progression. Specifically, we aim to explore how women graduates perceive their educational attainment, experiences and career aspirations, and family responsibilities and their impact on their career progression.

The scarcity of research addressing gender issues in the Saudi labor force makes it particularly important to explore the socio-cultural and religious contexts in relation to the different perspectives in the extant literature. We aim to provide a more clear-cut explanation and understanding of the gender inequities facing women graduates in Saudi labor force as well as the impact of work and family roles on women's career progression. In doing so, we aim to extend the literature by contributing to this debate. As a result, this research is helpful in determining the great connection between Saudi women graduates and the challenges they face in their career progression. The information obtained will be helpful for policymakers, women interest groups and all Saudi citizens who are more than ever interested in the issue of gender inequities. The rest of the article is organized as follows: first, the literature review section reviews the relevant literature regarding women employment in Saudi Arabia. The second section discusses the research methodology employed in this study. The subsequent section presents the research findings in the results and discussion section. Finally, we conclude the article by recommending some practical suggestions to improve women employment in the Saudi Arabian context.

LITERATURE REVIEW

Research Background and Context: Saudi Arabia

The opening up of economies in the Arab region to foreign investments has created a need for skilled labor, which has transformed the composition of the workforce and the nature of women's employment in this region (Benson and Yukongdi, 2006). Saudi Arabia is considered as a major player in today's economy and its nations reflect great economic, political, and social diversity (Abuznaid, 2006). Thus, significant advancements have taken place in recent years, including the eradication of gender discrimination and the empowerment of women in various facets of social life (MENA,2007), which has led to increased education (World Bank Report, 2003; Weir, 2003) and an increase in women's economic activities. The government has implemented a range of new development plans aimed at expanding female education and employment opportunities. Government funds and initiatives have been allocated to support female economic and human capital in all spheres of life (AlMunajjed, 2010; Dahlan, 2007). It is clear that the Saudi government is serious about improving the quality of girls' education and has started to implement new reform policies. These reforms are still at an initial and exploratory stage and it may take a few years before their impact is evident.

Despite this, women in Saudi continue to suffer from discrimination in admittance to employment, prejudice in salary distribution, and obstacles in career progression (MENA, 2007). Despite the expansion in female education initiatives and opportunities Saudi Arabia also continues to have one of the lowest female workforce participation rates in the GCC countries (AlMunajjed 2010). With many developments made to eradicate discrimination, there is still a lot that needs to be done to ensure that the success of women's education is not only measured by the number of enrolments, but on the appropriate career opportunities and environments offered to them. As a matter of fact, opportunity and conducive environments are two areas of great hindrance to the learning of women in the kingdom despite the fact that it may have come a long way in the advancement of the empowerment of the girl child. The fact that problems in the education sector are often institutionalized, and hence not easy to eliminate, is a disturbing reality to many.

Socio-cultural, Family and Work-Related Issues Facing Saudi Female Graduates

Although several factors are likely to influence the perceptions of women graduates in terms of their career success, previous research suggests that gender, family, and work-cantered factors can strongly influence the career advancement of women graduates. There is much evidence that socio-cultural iniquities exist in place and a number of different views have been asserted to explain why women do not progress as far as men (Spector et al., 2005). Studies by Metcalfe (2011) and Hausmann (2010) show that even with increase in access to education and economic opportunities, women participation in the workforce remain constrained in Saudi Arabia. Other studies by Sidani (2005) and Elamin 2010 show that many of Saudi Arabia's educated women are unemployed because of a range of obstacles, including the regulatory environment and access to finance. Cultural values may influence the strength or the direction of the relationship between work-family conflict and its predictors and outcomes. Studies found that women experience several challenges when they enter the workforce including long working hours, schedule inflexibility, work-related travel, and job insecurity which result to work family conflict (Yang, 2005, Spector et al. 2005). Of course, the extent to which they are experienced may depend on the cultural and the socio-economic context (Aycan et al., 2004). Charlebois (2012) provides an interesting insight on some of the parallels in views expressed by Saudi men and views held more broadly about expected roles of women and men. He draws on Sunderland's notions of bounded masculinity and unbounded femininity (Charlebois, 2012) to argue that in spite of the feminist movements being successful in many parts of the world, women are still viewed as subordinate to the male in many roles inside and outside the home. Men are bound to provide, that is they are expected to be the breadwinners and to pursue careers. Women on the other hand can be considered as unbounded, with fewer expectations placed on them to excel and to pursue careers.

A study by Eby, Casper, Lockwood, Bordeaux, & Brinley (2005), findings have also shown that age and number of children, occupational status of the spouse or partner, and care of elder parents are the main demands in the family domain which might affect a woman to pursue employment. In order to overcome some of these challenges, a study by Adams, King & King (1996), observed that the most frequently discussed support mechanism in the family domain is the emotional and instrumental support from the spouse. Opportunity and conducive environments are two areas of great hindrance to the learning of women in the kingdom despite the fact that it mayhave come a long way in the advancement of the empowerment of the girl child. Saudi women however, face some minor problems along the options of opportunities available to them. The first reason is misunderstanding of what the job entails. The second reason is the social stigma and lack of familial support that Saudi women get when they decide to enter many new fields (Saudi Arabian Monetary Agency [SAMA], 2010).

Oxford Strategic Consultants (2010) performed an empirical study to to identify the barriers and solutions for more women to work. The authors made an extensive research by interviewing employers and employees of leading private and public sector companies across the GCC. The authors identified thirteen pertinent factors which act as barriers for more women to work. The following Figure 1 shows the major barriers that could act against women participating in the workforce, as defined by their interviewees. The authors reported that several of these thirteen factors are found to hinder the career progression of women in other parts of the world, and therefore the remedies to these obstacles could be somewhat similar.

Figure 1: Factors That May Hinder a Women's Career

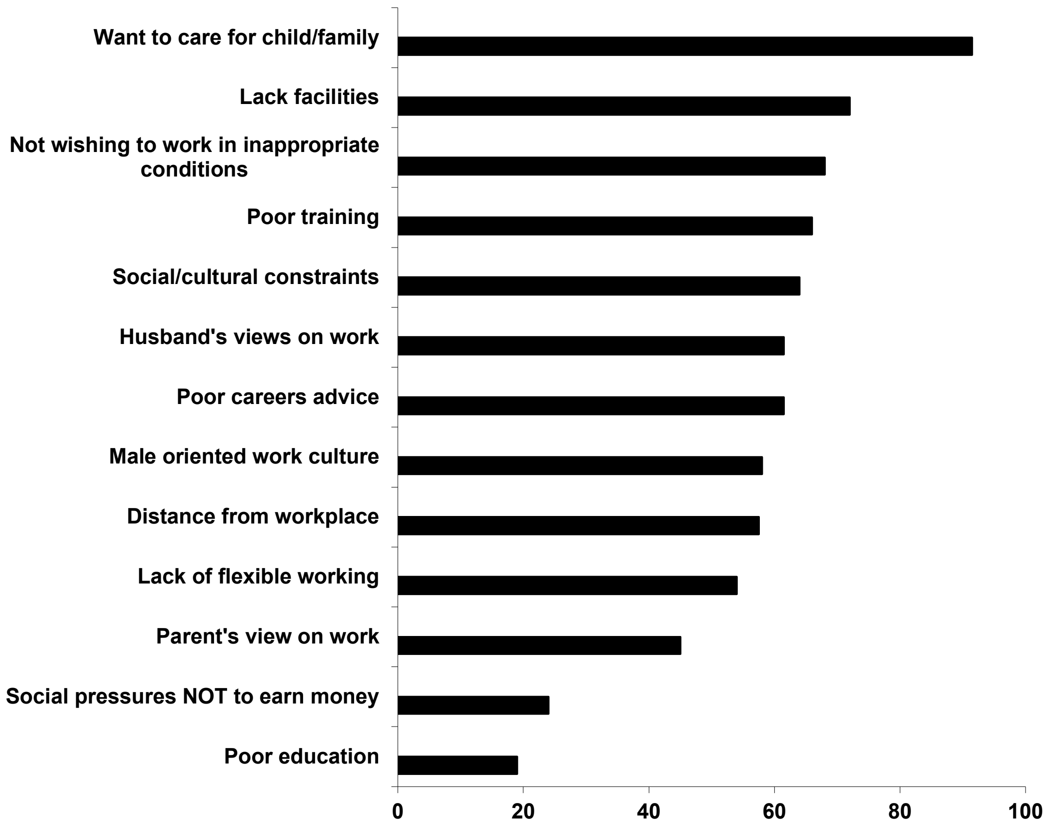

Figure 1 identifies the major barriers that could act against women participating in the workforce, as defined by their interviewees. The authors suggest thirteen pertinent factors, which act as barriers for more women to work, and at the top of the list is the need to care for child/family as the main obstacle.

RESEARCH METHODOLOGY

The main purpose of this study was to see if anything has changed in recent times for the women graduates at one Saudi university as a result of the huge educational investment and changes in the country. We also wanted to look at a relatively neglected area: the conflicts that women graduates experience between their home and family lives and the possible effects of this on their career progression. The questionnaire was divided into four sections and contained single-item standardised five-point Likert measures. Section A asked questions about work and career progress (such as employment status, type, salary band). Section B looked at further study information and reasons why. Section C looked at attitudes towards equal opportunities, personal and family issues and domestic responsibilities. Section D elicited general biographical information (such as age, and marital status).

The questionnaires were piloted with some Alumni at the university then distributed around 100 questionnaires in two different methods across the period of two years. In the first year, the University organized its alumni event and during this occasion we sought out alumni's contact number and e-mail address. We set up a database and send the questionnaire through emails to all alumni's within our database. The email explains the purpose of the study and the notion of confidentiality that we strictly adhered to for our research. Due to low response rate, we tried different methods. We contacted our alumni's through email and social media to encourage their response. The first method engenders around 10% response rate. In the second occasion, the University organized another meeting with its alumni, and this time we changed our strategy to enhance response rate. There was a booth that was set up for registration and we set around 100 questionnaires at the booth. Everyone who registered for the event would be encouraged to fill in the questionnaire. The purpose of the study was explained and around 30 questionnaires were filled in. In total, 27 usable questionnaires have been received and analyzed. The cut off period for this study is at December 2014. Our response rate is around 25% of the total population.

RESULTS AND DISCUSSION

<u>Respondents' Profile and Employment Information</u>

Table 1 presents the descriptive statistics of our respondents. It details the status and type of employment, age, marital status, annual pay, degree specialization and some information related to the alumni's careers. Around 78% of the alumni are in employment; 63% are in full-time employment, 7% are employed part-time, 4% are self-employed and another 4% are doing voluntary work. 22% of the respondents are not in active employment; in particular, 11% are in further study, 7% are temporarily sick or looking after home and family and remaining 4% are taking time out from work to travel. Our graduates' unemployment rate of 22% appeared lower than the findings by AlMunajjed (2010) and McKinsey & Company (2015), which suggested that women unemployment rate in Saudi Arabia, is around 26.9% and 33% respectively.

From overall responses we find 19% of the respondents are unemployed and actively looking for employment, further study or training, 5% are unemployed but not looking for employment, while remaining 76% are employed either in for-profit organizations (52%), not-for-profit organizations (19%) or operating their own business (5%). Interestingly, according to Welsh et al. (2014), 97% of women in KSA are employed in the government or public sectors with majority in higher education and schools. Thus, our findings suggest that, women graduates from PSU prefer to work in private for-profit companies rather than not-for-profit organizations.

In general, the age distribution is between 22 to 39 years old with a mean average of 26 years. This is because the cohort of students' graduates at the women's college is fairly recent. For example, the business department only had three batches that had graduated from its programs. Around 74% of the respondents earn less than SAR 24,000 per year or less than SAR2000 per month. We strongly feel that this was not the case in Kingdom of Saudi Arabia and there had been confusion amongst respondents in answering this question. If this data is representational of current situation, then excluding 5 respondents who are unemployed and studying, the remaining 15 respondents (56%) had significantly earned below the national wage average of the Kingdom. And in one occasion, when one respondent were interviewed about her pay, she realized that she made a mistake in selecting the right answer as she thought SAR 24,000 was the salary earned per month.

The respondents are well distributed from every department. Notably, most of the respondents were graduates from the English Department (36%), followed by Business Administration (20%), Information Systems (12%), Law (16%), Interior Design (8%) and Computer Science (8%). Most respondents (70%) who are employed suggested that their academic qualification was a formal requirement to land them their job and the remaining 26% suggested that their academic qualification was not the formal requirement but certainly gave them an advantage in getting the job.

Table 1: Descriptive Statistics

Employment Status of Alumni	Frequency	%
Employed full time	17	63%
Employed part-time	2	7%
Self-employed/freelance	1	4%
Voluntary work/other unpaid work	1	4%
Temporarily sick or unable to work/looking after the home or family	2	7%
Taking time out in order to travel	1	4%
Further study	3	11%
Type of employment		
Unemployed and looking for employment, further study or training	4	19%
Not employed but not looking for employment, further study or training	1	5%
Employee of a for-profit company or business or of an individual, for wages, salary, or commissions	11	52%
Employee of a not-for-profit, tax-exempt, or charitable organization	4	19%
Self-employed in own incorporated business, professional practice, or farm	1	5%
Age distribution		
Less than 25	11	42%
26-30	13	50%
31-35	1	4%
36-40	1	4%
Marital status		
Married	11	41%
Never married	16	59%
Annual pay		
less than SAR24,000	20	74%
Between SAR 24,001- 48,000	3	11%
Between SAR 72,001- 96,000	3	11%
Between SAR 144,001-168,000	1	4%
Specialization		
English	9	36%
Interior Design	2	8%
Computer Science	2	8%
Information Systems	3	12%
Law	4	16%
Business Administration	5	20%
Did you need the qualification to get the job		
Yes: the qualification was a formal requirement	16	70%
Yes: while the qualification was not a formal requirement it did give me an advantage	6	26%
Don't know	1	4%
How did you find about this job?		
Your university/college (e.g. Careers Service, lecturer, website)	2	10%
Professional networking	3	14%
Speculative application	1	5%
Already worked there (including on a coop)	3	14%
Personal contacts, including family and friends	12	57%

This table presents the descriptive statistics of our respondents. It details the status and type of employment, age, marital status, annual pay, degree specialization and some information related to the alumni's career. Their responses were recorded in form of frequency and percentage.

Around 4% did not know whether their qualification get them the job. Respondents were asked on important factors that employers considered for employment. 29% of the respondents suggested that the subject studied was an important factor while 29% felt that the level of study was more important. 19% of respondents suggested that having work experience is equally important for employment. Nevertheless, 14% were not certain of the factors that were important to employers. And remaining 19% suggested that no one thing was important but rather a combination of many reasons altogether. Most respondents came to know about their job through personal contacts, including family and friends (57%). This further reinforces the close-knit society embedding the Saudi culture where even during digital-age, personal contacts and word of mouth are still an important means to look for jobs. Other respondents found out about their job from their internship and COOP experience (14%), professional networking (14%) and the remaining respondents suggested that they first learn about their job through their university (10%).

Role of Higher Education in Preparing for Employment

Table 2 describes the respondents' perception on the role of higher learning institution in preparing our graduates for their respective employment. 80% of the graduates believed that their experience in higher education had prepared them for their employment. However, 20% of respondents respectively disagree to this claim or suggested that they can't tell if their higher education had prepared them for employment. With respect to self-employment, freelance and starting their own business, only 52% believed that the higher education prepared them for this and the remaining 24% respectively disagree and cannot tell the difference. The questionnaire further reiterates to what extent does PSU, College of Women (PSU-CW) contribute to their personal success and 88% of respondents feel that PSU-CW had contributed very well (36%) or well (52%). Nevertheless, 4% disagree and remaining 8% cannot tell whether PSU-CW contributed to their success or not. Around 60% of the respondents suggested that they decided to take on the current job because it fitted with their career plan or it was exactly the type of work they are interested in. Another 20% suggested that because that was the only job being offered; and the remaining 20% wanted to explore whether the job may interest them.

Table 2: Higher Learning Institution's Role in Preparing for Employment

	Can't Tell	Not Very Well	Well	Very Well
How well did you overall experience in higher education prepare you for employment?	8%	12%	48%	32%
How well did your overall experience in higher education prepare you for being self-employed/freelance or starting your own business?	24%	24%	40%	12%
How did PSU- College for Women experience benefited and/or contributed to your success?	8%	4%	52%	36%

This table presents the respondents' perception on the role of the higher learning institution in preparing the graduates for their respective employment. It requires respondents to rate how well their experience prepares them for their career. In general most respondents feel that the higher learning institution has prepared them well and very well as shown in the table above.

Government Policy

Table 3 presents the respondents' perception about the Kingdom of Saudi Arabia's government recruitment, promotion, selection and training policies in general and towards women. 28% of the respondents suggested that the government policy is fair to all staff whether they are male or female. Nevertheless, this does not reflect the majority's opinion of 40% who disagreed that the government's recruitment policy is fair. And remaining 32% stated neither disagreement nor agreement. Our finding is rather consistent with extant literature about prevailing gender disparities in the Kingdom (Thompson, 2015; Abu-Rabia-Queder, 2014). Women in KSA has long accepted gender inequalities arise from the close application of traditional social values and misrepresentation of the Islamic law (Thompson, 2015). While Islam does not oppose to emancipation of women (Thompson, 2015; Vidyasagar and Rea, 2004), strict Saudi cultural norms engendered women inequality in the public sphere and in workplace (Vidyasagar and Rea, 2004). As a result, despite of high literacy levels and education attainment, Saudi women are restricted in the types of subjects and jobs they can choose from (Thompson, 2015; Abu-Rabia-Queder, 2014). The next question asks about the fairness of the promotion policy that applies to women. Respondents share equal agreement and disagreement to this question. 40% of the respondents felt that the promotion policy is fair to women while the remaining 40% suggested otherwise.

Even though, there is no restriction for women to take position of leadership in the society; in fact, KSA sign a declaration with the United Nations against women discrimination; the principle problem for women to climb the leadership position is dependent to the attitude of those in powerful position within organizations (Vidyasagar and Rea, 2004). As such, our result is consistent with this findings where the opinion on the issue of fairness of promotion policy is largely dependent on the organizations they worked in. Respondents were then asked about their opinion whether the Kingdom's monitoring of selection, training, promotion and career development policies is rigorous. Respondents appeared to be equally divided in their opinion between agreeing, disagreeing and taking the middle stand regarding this statement. This is consistent with Thompson's (2015) mixed findings regarding the support received by Saudi women in the workplace. On one hand, he suggested that women are getting more support and backing from key high-profile figures and were given a chance and representation in the society and workplace but on the other hand, many are still un-reluctant and do not want to risk as being un-conservative and regards women representation merely as 'decorative nature'.

The next question seeks opinion whether respondents think that the government support and policies for women employment are merely rhetoric rather than reality. 18% did not think it was rhetoric. 39% agreed to this statement and majority of the respondents (44%) preferred to take the middle stand. From these four questions above, we found that majority of respondents prefer not to express their agreement nor disagreement. It had also been noted, on average 14% of the respondents omitted answering these questions completely. Our findings about government policy towards women employment are consistent with previous findings that suggested lack of government support (Welsh et al. 2014), ambiguous policies and regulations (Alturki and Braswell, 2010) and dealing with bureaucratic procedures (Ahmad, 2011) were barriers to success of Saudi women specifically women entrepreneurs.

Table 3: Government Employment Policies

	Strongly Disagree	**Disagree**	**Neither Disagree nor Agree**	**Agree**	**Strongly Agree**
The government's recruitment policy is fair to all staff	16%	24%	32%	24%	4%
The country's promotion policies are fare to women	16%	24%	20%	32%	8%
The country's monitoring of selection, training, promotion and career development policies is rigorous	8%	25%	33%	29%	4%
The country's policy is rhetoric rather than reality	9%	9%	44%	35%	4%

This table presents the respondents' perception about the Kingdom of Saudi Arabia's recruitment, promotion, selection and training policies in general and towards women. Respondents rate their opinion on 5-point scale between strongly disagree to strongly agree. The respondents in general disagree that the government employment's policy are fair. Respondents however provided a balanced view regarding the rigorousness of the country's monitoring of selection, training, promotion and career development policies. Lastly, most respondents feel the country's employment policy is rhetoric than reality.

Work-Family Influences

This section explores how work and family relations influence Saudi women's career. In particular, we seek to clarify whether or not the women's career in Saudi have been affected by their household responsibilities, as a wife, mother or carer. Our first analysis looks at the first breakdown on their marital status. Although few alternatives were listed including divorced, widowed and separated but the breakdown is clearly separated into two categories. All respondents fall under married or never married category. No respondents indicated otherwise. The respondents represented a good sample of being married (41%) and never married (59%). One respondent did not indicate her marital status. Table 4 below looks at the work-family issues that may make or break a women's career. Some of the factors include a husband's support (or lack thereof), family and social commitments, childcare responsibilities and household chores.

Role of a Husband in a Women's Career

From the tables above, majority of the respondents did not agree that having a partner or husband is a deterring factor for their career. 54% of the respondents did not think they had to sacrifice their career for the sake of their husbands. Only 9% of the respondents had to sacrifice their career for the sake of their husband. And the remaining 36% chose the middle stand. The next question looks at whether the husband also had to make some compromise for the sake of their working wives. It was found that 18% of the respondents felt that both parties had made sacrifice of their careers for the sake of their relationship. And another 23% suggested otherwise. And majority of respondents (59%) neither agree nor disagree on this matter. The final question on this issue seeks out respondents' opinion whether supporting their husband's career affected their own career. It was found that 41% of respondents did not think supporting their husband's career had forsaken their career in anyways. Only 10% stated that supporting their husband's career had caused problems for their own career. And majority refuse to take a stand on this issue (50%).

Table 4: Work-family Influences on Women's Career

	Strongly Disagree	**Disagree**	**Neither Disagree nor Agree**	**Agree**	**Strongly Agree**
I have compromised my career for the sake of my husband's career	27%	27%	36%	9%	0
We have both made compromises in our careers for the sake of our relationship	18%	5%	59%	18%	0
Providing support for my husband's career has caused problems for my own career	23%	18%	50%	5%	5%
I have sacrificed my personal time to get where I am today	4%	13%	13%	46%	25%
I have sacrificed social time/friendships to get where I am today	4%	26%	30%	30%	9%
I have sacrificed time with my husband to get where I am today	23%	0	64%	9%	5%
The right husband is the secret of a successful career	14%	5%	32%	27%	23%
My husband is supportive of my career	10%	0	43%	24%	24%
A career break for women can damage their future career prospects	4%	30%	26%	35%	4%
A delay in starting a family until a career is established is beneficial to my career development	17%	9%	26%	43%	4%
The absence of family demands is beneficial for my career	13%	4%	22%	57%	4%
The majority of working women are unable to move due to family commitments	9%	17%	13%	43%	17%
Successful women tend not to have families	23%	41%	14%	23%	0
Women still retain most of the responsibility for the care and wellbeing of children	0	0	14%	36%	50%
Lack of adequate child-care is an obstacle to women's careers	0	9%	4%	57%	30%
Household chores are mainly my responsibility	9%	43%	9%	35%	4%
We organize domestic tasks on an equal footing	9%	17%	52%	22%	0
Family responsibilities have interfered with my career	13%	43%	9%	30%	4%
Women can successfully combine a career and a family	0	0	23%	50%	27%
Family considerations affect career to a greater extent than career affects family	0	17%	22%	61%	0

Table 4 looks at the work-family issues that may make or break a women's career. Some of the factors include a husband's support (or lack thereof), family and social commitments, childcare responsibilities and household chores. Respondents rate their opinion on 5-point scale between strongly disagree to strongly agree. Generally, respondents disagree that a husband is a deterring factor in one's career. Respondents believe career break damages career prospects and family and household commitments may hinder a women's career. In general, most respondents agree that women can successfully combine a career and family but if they have to choose, many believe family considerations affect career to a greater extent than vice versa.

Respondents were asked whether they had sacrificed their personal time, or social time/friendships and time spent with their husband to get to where they are now, it was noted that most respondents (71%) had to sacrifice their personal time to achieve what they had now. 39% of the respondents suggested that they had to sacrifice their social time and friendship and only 14% suggested that they had to sacrifice the time spent with their husband. Therefore, it does suggest that husband is not a hindrance for a successful career. The next questions explore whether husband's support enhances their wives' career. 50% of respondents feel that the right husband is the secret to a successful career. And notably, 48% of the respondents also suggested that their husband is supportive of their career. Nevertheless, 19% of respondents did not think husband's support had any effect on their career while 10% strongly disagree that they received support from their husband. And on average remaining 32% did not state their opinion to this statement. Arguably, in KSA, husband's support is very important as they require permission from their husband or male relative to work and continue working (Vidyasagar and Rea, 2004; Welsh et al., 2014; Thompson, 2015).

Family Commitment's Effect on Women's Career

Three questions were asked to explore about the influence of having a family on women's career. The first question seeks graduates opinion whether a career break would damage their future career. Here, career break refers to a women taking an extended leave of absence for maternity, caring for their newborn or young children. 39% of the respondents agreed that taking a career break would damage their future career prospects, while remaining 34% believed otherwise. Remaining 26% did not take a stand on this matter. It is quite common to start family early in Saudi Arabia (Mobaraki and Söderfeldt, 2010). Some college students are married and have children of their own. Nonetheless, 47% of respondents suggested that delaying starting a family until their career is established would be beneficial for their career development. However, 26% did not think starting a family would interfere with their career development. And remaining 26% neither disagree nor agree. The next question further scrutinizes the idea whether the absence of family demands may be beneficial to one's career. Many respondents (61%) agreed that absence of family demands is beneficial to their career which is generally consistent with extant findings about the existence of work-family conflicts among working women and/or mothers. Only 17% feel that family demands is not in the way of their career.

Majority of respondents (60%) indicated that working women are unable to move due to family commitments. According to Powell and Greenhaus (2012), both men and women take family into consideration in their work decisions, including one that involved relocation. Nonetheless, 26% suggested that family commitments are not the reason for not moving elsewhere. 13% did not state their opinion. When asked whether an image of successful women is usually associated with not having any family, majority of respondents (64%) did not think that should be the case. Only 23% agree that successful women tend not to have families. And 14% neither disagree nor agree. One of women's responsibilities in her household is caring for her children. At least 86% of the respondents feel that women still retain most of the responsibility for the care and wellbeing of their children (Stier and Mandel, 2009)

Therefore, finding a right and suitable childcare is an important factor for most working mothers (Stier and Mandel, 2009). Therefore the next question explores whether lack of adequate child-care is an obstacle to women's career. As been expected, 87% of the respondents thought it was a problem. Only 9% of the respondents did not think it was an issue and remaining 4% did not state their preference. Consequently, having an adequate childcare should be on every employer's priority in order to attract highly qualified and outstanding women to the work place since it is an important factor for all working mothers (Stier and Mandel, 2009). In addition to caring for children, women generally are responsible for the household chores. Nevertheless, it is quite common for the Middle-eastern families to employ house help and maids to help with the house chores (Vidyasagar and Rea, 2004; ILO, 2013). Therefore, when asked whether household chore is their main responsibilities, only 39% suggest that was the case.

Majority of respondents (52%) did not think that household chore is their main responsibilities. And when further asked whether the husband is involved in domestic tasks, surprisingly majority of the respondents neither disagree nor agree to this statement. 26% stated their disagreement that their husband was involved in any domestic tasks equally. And remaining 22% suggested that they do share domestic tasks equally which is quite astonishing for a patriarchal society like Saudi Arabia (Thompson, 2015).

56% of respondents did not feel that family responsibilities interfered with their career. Nonetheless, somewhat 34% agreed that family responsibilities have interfered with their career. Majority of respondents felt (61%) that family considerations often affect career (FIW -family interfere with work) to a greater extent than career affecting family (WIF-work interfere with family). This is rather common amongst female employees to perceive work interfering with family (WIF), as family demand and considerations are often greater for females than males (Byron, 2005; Powell and Greenhaus, 2012, Thompson, 2015). On the contrary, 17% of respondents thought otherwise. Lastly, to conclude this analysis, respondents were asked whether women could successfully combine family and career together. Surprisingly, this is the only question in the entire questionnaire that all women agreed on. 77% of the respondents felt that women can successfully combine a career and a family and remaining 23% prefer not to state their opinion.

CONCLUSIONS AND IMPLICATIONS

In this paper, we have explored the experiences of women graduates regarding their views on gender, work, and family-related responsibilities and whether these impact on their career progression. There was an acknowledgment that the current social-cultural and political systems impacts on the opportunities that are available for women. The fact that women face greater barriers than men within the workplace is more to do with cultural and social traditions rather than the capabilities and skills of women. Our study uses questionnaires to gauge the opinion of our graduates on women employment issues. In total, 27 questionnaires were used to form the basis of our findings. Because of the small sample size, our results are not generalizable to the general women employment in KSA. This poses as our main limitation. Nonetheless, PSU is a small university but highly reputable among employers. Most of our graduates receive employment offers prior to graduations. Thus, despite the small number it may actually overstate the general women employment condition in KSA. This in itself is another limitation as the sample data does not reflect general condition elsewhere.

We believed future study should explore women employment issues in general and not focused only on the graduates of higher learning institution. The KSA is currently enhancing their recruitment policies towards local employment (Saudization). Nonetheless, only 14% of women participate in the labor market. Apparent lack of women employment is the main obstacle towards the success of Saudization. Thus, academics and practitioners should join force to uncover the underlying issues hindering women employment and propose suggestions that can help change the labor market in KSA. It appears that the traditional societal beliefs regarding the gender roles are powerful societal factors at play within the Saudi society which effectively act to limit the types of careers seen as suitable for women. Evidently despite the meagre family support structures and high educational attainments women continue to cluster at lower numbers in the labor force. The data also show that some of these women have had to make very difficult decisions about balancing their career and family lives. These findings add weight to a considerable body of previous research on work-family conflicts (see Sinclair, 1998; Schwartz, 1995; Lambert, 1990). Despite the very real advances that women in Saudi have made over the last 20 years in educational attainment, the women in this study continue to take a greater responsibility for domestic responsibilities, even if this slows down or even halts their career progression. There was little evidence that their partners had made career sacrifices in the way that these women have. A discussion of exactly why these women still make these sacrifices is a subject that has received attention in the past (Schein, 1993) but is beyond the scope of this paper. However, it clearly merits further research.

The findings of this study confirm that women, even now, have still to overcome ingrained socio-cultural and structural barriers if they are to achieve equality with men in their career progression. The suggested general strategies to encourage greater equality for women in the work force include 1.) providing all young women graduates with female mentors in order to provide support and guidance within different organisations; 2.) introducing more flexible working hours and encouraging job sharing and part-time work; 3.) giving greater recognition to women's family and domestic responsibilities; 4.) insensitivity to family issues and workplace inflexibility are still major impediments to women in the labor force; 5.) changing organisational cultures to reflect the needs of women career progressions.

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BIOGRAPHY

Dr Alawiya Allui is an Assistant Professor in College of Business Administration in Prince Sultan University. Her research interests have focused on strategic management in general and strategic human resource management, corporate diversification strategies, and policies in specific. Saudi Arabia as an emerging economy has interested her in many areas around strategy of which she has published and presented in local and international conferences. She can be contacted at aallui@psu.edu.sa

Dr Kamilah Kamaludin is an Assistant Professor in College of Business Administration in Prince Sultan University. Her research interests are generally in management accounting, governance and change. However, while working in PSU, she realized that the women graduates generally possess high intelligence and skills but their potential were kept hidden. This has piqued her interest and motivates her in studying the challenges faced by women in this part of the society. She can be contacted at kkamaludin@psu.edu.sa.

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CHANGES IN IFRS 3 ACCOUNTING FOR BUSINESS COMBINATIONS: A FEEDBACK AND EFFECTS ANALYSIS

Walid Masadeh, The Hashemite University
Ebrahim Mansour, The Hashemite University
Wasfi AL Salamat, The Hashemite University

ABSTRACT

This research reviews the effect of IFRS (International Financial Reporting Standards) 3 with a focus on the changes in accounting procedures under business combinations. A content analysis research methodology was used to code and categories feedback data on the effects of IFRS as positive and negative. Results indicated that IFRS is considered successful by 71% of its users and unsuccessful by 29% of its users. IFRS success is credited to the enhancement of comparability of accounting information and streamlining of acquisition methods and goodwill under business combinations. Contrarily, IFRS is considered unsuccessful, because it is riddled with negative consequences, such as rising costs of compliance and preparation, especially in developing and less industrialized nations. We conclude that comparability of accounting information on an international scale is the most positive effect of IFRS 3, while increasing cost of compliance is the greatest negative effect of IFRS 3. We suggest that the International Accounting Standards Board (IASB), Financial Accounting Standards Board (FASB), and other bodies involved in setting global accounting standards should focus on finding ways to incentivize developing countries and companies to comply with the standards. We recommend further studies on ways to assist companies to reduce preparation costs resulting from IFRS changes.

JEL: M16

KEYWORDS: Business Combinations, Acquisition, Goodwill

INTRODUCTION

IFRS aims to improve three key things, relevance, reliability and comparability of information. Without these characteristics, the evidence provided by a reporting entity in its financial statements regarding a business combination might have undesirable effects. To that goal, IFRS establishes a fair playing ground for disclosures on the recognition and measurement of assets and liabilities. In addition, the IFRS establishes guidelines for determining goodwill and what is relevant to disclose to enable users of financial statements to evaluate the nature and financial effects of a business combination (IFRS 3, 2011). Several issues, such as high cost of compliance preparation and documentation faced by developing countries have continued to deface the beauty of IFRS3 intentions. Examining the IFRS Timeline between 2001 and 2013 (Appendix A and B), these issues have not been addressed. In the wake of mounting compliance issues, and global increases in cost of acquisition litigation in the past five years, as well as the 70% to 90% failure rate in mergers and acquisitions, the importance of IFRS functions can hardly be overemphasized. In the United States for example, the percentage of deals subject to litigation increased from 53% in 2007 to 96% in 2012 (Daines & Koumrian, 2013; McMorris, 2016). The need for revisions in accounting procedures addressing many issues have become stronger, particularly as "accounting for business combinations has been identified previously as an area of significant divergence" (IFRS, 2015).

Despite the importance of improved comparability of accounting information (Deloitte, 2016), few studies have assessed the effect of IFRS 3, in terms of the changes in the acquisition method and goodwill, from the perspectives of the users of accounting information in multiple geographical regions. This study examined content in over 300 studies on the effects of IFRS in multiple regions. The result showed a popular acceptance of IFRS as successful mainly in some developed nations. The next section of this paper discusses relevant literature, followed by another section on data and methodology. After the data and methodology section is the presentation of results followed by the concluding statements.

LITERATURE REVIEW

In this section, the effects of IFRS in previous studies are reviewed. Under IFRS 3, a business combination occurs when cash is transferred and liabilities are incurred (Deloitte, 2016; IFRS 3, 2011). It also includes issuing equity instruments or contracts or any combination thereof as stated in IFRS 3, section B5 and B6. There are two steps in ascertaining whether a business combination has taken place. The first step is proof of acquisition. A business combination must involve the acquisition of a business entity by another, without which a combination is ruled out. The second is the test of acquisition to make sure three elements, input-process-output are involved. Inputs are economic resources, such as non-current assets and intellectual property that create outputs when one or more processes are applied to them. Process refers to an existing system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs. Process included strategic management, operational processes, resource management or field support procedures. Output refers to the result of inputs and processes applied to a system (Deloitte, 2016; IFRS 3, 2011). It is noteworthy that IFRS 3 would not apply in conditions, where the formation of a joint venture is taking place as in IFRS 3 section 2(a), non-business transactions as in IFRS 3section 2 (b), and in common control transactions as stipulated in IFRS 3, section 2(c). Also, included are acquisitions by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss under IFRS 10 Consolidated Financial Statements (Deloitte, 2016; IFRS 3, 2011).

The "acquisition method" is fundamental to accounting for business combinations in IFRS 3 under acquisitions and mergers. In the acquisition method, it is a required practice that assets obtained, and liabilities undertaken are defined and recorded at their fair values at the acquisition date. This was part of the revision in January 2008, which applied to business combinations occurring in an entity's first annual period beginning on or after 1 July 2009. IFRS 3.53, identifies acquisition costs as including finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; and general administrative costs. It also includes costs of maintaining an acquisitions department (IFRS 3, 2011). The cost of acquisition is determined either in cost or with reference to IAS 39 Financial Instruments: Recognition and Measurement under IFRS 3. The cost of acquisition under the US standards is determined using the equity method. Goodwill in SFAS 142 is allocated to reporting units as functional segments of a going concern or enterprise, while under IFRS 3 goodwill is allocated to cash-generating units. A cash-generating unit is defined in IAS 36 Impairment of Assets as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (Deloitte, 2016; IFRS 3, 2011). The cash-generating units may be like or smaller than reporting units mentioned in SFAS 142.

In 1997 the Financial Accounting Standards Board (FASB) enacted the Concepts Statement No.6, in which it decided that goodwill is an asset (Al-Khadash & Salah, 2009; Johnson & Petrone, 1999). Many options were in existence before the accounting standards on goodwill was ushered in. Fundamentally they included the asset-based methods capitalization and the elimination methods for the immediate write-off against reserves (Lewis and Pendrill, 2004). However, this paper focuses on two treatments for goodwill; amortization and impairment.

In amortization, the cost of intangible assets is amortized over a period perceived as beneficial to the acquisition. Under International Accounting Standard No. 22 (IAS 22), accounting for business combinations applied amortization throughout the goodwill's useful life for a given number of years, usually subject to a maximum of twenty years. This approach was replaced by IFRS 3, because the amortization method is plagued by so many issues. First, determining the useful life of goodwill is subjectively arbitrary and difficult, even when using specific years as indicated in IFRS 3. Thus, the impairment approach became favored.

The current treatment of goodwill allowed by IFRS 3 is the impairment approach (IFRS 3, 2011). In this method, goodwill is written-down to a recoverable amount through the income statement. When the book value or carrying amount is greater than the expected cash flow from goodwill, and deemed non-recoverable, a condition of impairment is said to exist. Post-acquisition performance and value of goodwill or its degree of impairment and deterioration can examining indicators, such as return on assets (ROA). As ROA becomes less significant, write-off methods become more applicable and indicate that goodwill be deleted or expensed based on expected zero future goodwill value or benefits (Johnson & Petrone, 1999). That IFRS 3 upheld the same amendments of goodwill and business combination accounting adopted by FASB in 2001 represents no change. It is interesting to note the similarity between IFRS 3 and US standards, which lies in the wording of the treatment of the acquisition cost. According to IFRS 3, acquisition cost is measured and applied from the date of the acquisition or the date the acquirer takes control of the acquiree net assets (Appendix B). On the other hand, under US standards the cost is applicable from the date of the announcement.

Positive findings abound from many studies on the post implementation of IFRS 3. Hamberg, Paananen, & Novak (2011) observed that after the adoption of IFRS 3 in January 2005 the amount of capitalized goodwill increased substantially in Sweden. They noted that goodwill impairments under IFRS was significantly lower than goodwill amortizations and impairments made under Swedish GAAP. Most importantly they stated that the adoption of IFRS 3 increased reported earnings. Analyzing the economic incentives that influenced impairment decision at the onset of the adoption of IFRS 3, Hamberg, Paananen, & Novak (2011) found that tenured management was negatively associated with the impairment decision, and most firms did not reclassify goodwill or make additional impairments. Firms with substantial amounts of goodwill continued to make very high returns on investment even with low earnings. "The revised IFRS 3 and amended International Accounting Standards (IAS) 27 meet the qualitative criteria for endorsement as defined by the IAS Regulation 1606/2002 and will have positive cost-benefits effects" (European Commission, 2008, p. 16). That was the conclusion of the commission after a long and detailed feedback and effects analysis of IFRS 3.

In another scenario, Glaum, Schmidt, Street, & Vogel (2013) analyzed the compliance to International Financial Reporting Standards, with a focus on disclosures required by IFRS 3. On Business Combinations and International Accounting Standard 36: Impairment of Assets, they found a great deal of non-compliance. Earlier in a study, O'Connell & Sullivan (2009) reported a statistically significant increase in Net Income, in 2004 in about 75% of firms studied. On earnings management, Jeanjean & Stolowy (2008) argued that sharing rules is not a sufficient condition to create a common business language, rather management incentives and national institutional factors, which play important roles in determining financial reporting characteristics should be the basis.

Jangwon (2013) found that Initial Public Offering (IPO) underpricing is lower for IPO firms using IFRS than those using domestic GAAP. He concluded that the impact of IFRS on IPO underpricing is greater in IPO firms listed jurisdictions with strong enforcement, and the use of IFRS reduces IPO underpricing compared with domestic Generally Accepted Accounting Principles (GAAP) since IFRS facilitates comparability. The down side is that the advantages of enhanced comparability in the use of IFRS are manifest only only when there is evidence of high-quality enforcement. A documention of the the accounting consequences of the adoption of IFRS 3 and the stock market's reaction in Swdeen indicated that in the post adoption period after January 2005, the amount of capitalized goodwill increased substantially (Mattias, Mari, & Jiri, 2011). This increase was attributed to the fair value measures that allowed managers to use their discretion in determining fair value. Mattias, Mari, & Jiri (2011) found that goodwill impairments under IFRS to be considerably lower than goodwill amortizations and impairments under Swedish GAAP. They concluded that the adoption of IFRS 3 increased reported earnings. Other findings by Mattias, Mari, & Jiri (2011) was that firms did not reclassify goodwill or make additional impairments, and firms with substantial amounts of goodwill yielded abnormally high returns despite abnormally low earnings. They also reported a positive reation from investors who perceived the accrual-based increase in earnings as a result of IFRS 3 to be an indication of higher future cash flows.

The impact of IFRS 3 has not yielded positive effects in all accounting areas or across nations. IFRS 3 affected the accounting for acquisitions of companies but not the Group's acquisition strategy, as noted by PR Newswire (2005). An effects analysis of three countries UK, Ireland and Italy showed that profits under IFRS was greater than reported under GAAP, and net worth was higher (Fifield, Finningham, Fox, Power, & Veneziani, 2011). However, further details from Fifield, Finningham, Fox, Power, & Veneziani (2011) revealed that while UK and Italian companies experienced an increase in equity from IFRS, the Irish firms in the sample recorded a decrease. This study concluded that the the impact of IFRS on profit and net worth cannot be attributed to on single factors or event, but to all the core standards including IFRS 2, IFRS 3, IFRS 5, IAS 10, IAS 12, IAS 16, IAS 17, IAS 19, IAS 38 and IAS 39. Based on the above observation, Fifield, Finningham, Fox, Power, & Veneziani (2011) recommended a multi-country perspective for future IFRS research. Since the effects and efficacy individual IFRS varies from one country to another.

Summarising the effect of IFRS in Europe, Sacho (2006) grouped the effects of IFRS into five categories, as the earnings volatility effect, the gearing effect, the disclosure effect, the decision-making effect on fund managers, and the effect on management. Sacho noted that the most significant effect was the shift from the traditional basis of preparing financial statements under the historical cost method to the more complex model of fair value accounting, which to a great extent influenced the changes we have seen in IFRS 3 on business combinations and fair value.

Not sounding quite pumped up about the effects of IFRS, Sacho (2006) furthermore, addressed the negative effects of IFRS. He observed that IFRS in the fair value approach, characteristic of IFRS3, is akin to high volatility in earnings and uncertainty in the future, which complicates the understanding of what a company classifies as debt. For instance, under IFRS, European companies have to report all derivatives at fair value on the balance sheet, and all subsidiaries and off-balance sheet financing vehicles are required to be consolidated (Sacho, 2006). In a concluding statement, Sacho stated that IFRS requires greater disclosure than the European GAAPs, and in the process improved transparency, which though more cumbersome, seems to be promoting greater understanding of corporate performance among investors. In other word, investor perceptions of value is improved as well as investor investment decisions. On the strengh of the findings and arguments reviewed, which interestingly suggested that the IASB, the SEC and the European Commission should devote more effort to harmonizing incentives and institutional factors rather than harmonizing accounting standards.

DATA AND METHODOLOGY

In this study, a content analysis methodology was used to assess the feedback and effects of IFRS 3, based on the critical framework of the changes it brought about in four key areas, cost, clarity of principles and guidance, transparency, and comparability. Data was collected from more than 300 articles in journals, periodicals, books, the internet, and dissertations were reviewed. Articles that met the inclusion criteria by addressing four key areas on feedback and effects, as well as addressed in detail the critical shades of changes in IFRS 3 on business combinations, were selected. Information from the articles were extracted and tabulated according to regions as shown in Table 1.

This section presents four content analyses frameworks and their coding (Boolaky, 2006). The three tables reporting analysis results are, Table 1 feedback and effects, Table 2 positive effects, and Table 3 negative effects. The analysis framwork is based on four important and sensitive areas of IFRS 3 effects, that could be perceived as positive or negative depending on their benefits (Deloitte, 2016; European Commission, 2008; IFRS, 2015). These include cost-benefits effect (positive or negative), additional costs of compliance to disclosure requirements and cost of preparation and change of concept in certain critical areas like partial acquisitions. Of interest are clearer principles and additional guidance integrated in the standards, transparency through additional disclosure and comparability on an international level.

Cost benefits effects are coded CBE. When positive the code is CBEP and when negative CBEN. Cost of compliance is coded CC, when reported as increased it is coded CCI, and when reported ad decreased it is coded CCD. Cost of preparation and change of concept is codded CPC, when reported as increased it is Codded CPCI, and CPCD when reported as decreased. Clearer principles and additional guidance integrated in the standards is coded CPAG. When increased, it is codded CPAGI, and CPAGD when decreased**.** Transparency through additional disclosure is coded TRAD. When increased, it is coded TRADI, and when decreased it is coded TRADD. Comparability on international level is coded COIL. COILI when increased, and COILD, when decreased.

RESULTS

Table 1 reports the summary data on coded information by region (Europe, Africa, and Asia) from articles based on the analysis framework. It also shows the total for each classification in the framework.

Table 1: IFRS3 Feedback and Effects Summary Data

	CBE				CPAG		TRAD		COIL	
Region	**CCI**	**CCD**	**CPCI**	**CPCD**	**CPAGI**	**CPAGD**	**TRADI**	**TRADD**	**COILI**	**COILD**
Europe	14	26	10	30	35	5	24	16	35	5
Africa	30	10	5	35	33	7	30	10	37	3
Asia	15	25	30	10	30	10	35	5	34	6
Total	59	61	45	75	98	22	89	31	106	14

Table 1 shows IFRS 3 Feedback and Effects Summary Data. Because the effects of IFRS 3 varies within and between countries (Sacho, 2006; O'Connell & Sullivan, 2009), data from Table 1 was reorganized into two groups, positive effects and negative effects, and that gave rise to 2 and Table 3.

Tables 2 and 3 categorize the data from Table 1 into two groups. Table 2 shows three key areas of positive impact. The first is comparability on international level increase (COILI). The second is clearer principles and guidelines increase (CPAGI), and the third is transparency and disclosures increase (TRADI).

Table 2: IFRS3 Positive Effects Data

Positive Effects	Score
Cost of compliance decreased (CCD)	61
Cost of preparation decreased (CPCD)	75
Clearer principles and guidelines increased (CPAGI)	98
Transparency and disclosures increased (TRADI)	89
Comparability on international level increased (COILI)	106
Total	429

Table 2 shows three key areas of positive impact. The first is comparability on international level increase (COILI). The second is clearer principles and guidelines increase (CPAGI), and the third is transparency and disclosures increase (TRADI).

Table 3 shows three key areas of negative impact. The first is cost of compliance increase (CCI). The second is cost of preparation increase (CPCI), and the third is transparency and disclosures decrease (TRADD).

Table 3: IFRS3 Negative Effects Data

Negative Effects	Score
Cost of compliance Increased (CCI)	59
Cost of preparation increased (CPCI)	45
Clearer principles and guidelines decreased (CPAGD)	22
Transparency and disclosures decreased TRADD	31
Comparability on international level decreased (COILD)	14
Total	171

Table 3 shows three key areas of negative impact. The first is cost of compliance increase (CCI). The second is cost of preparation increase (CPCI), and the third is transparency and disclosures decrease (TRADD).

Table 4 presents the grand total on positive and negative effects. The 429 units out of 600 units means that 71 percent of the studies reviewed indicated that IFRS3 is having a positive effect on relevance, reliability and comparability of accounting information. It portends that the changes in international financial reporting standards, say in IFRS3 are viewed favorably by companies and investors using the guidelines. On the contrary, 171 units out of 600 or 29 percent of contents reviewed on IFRS 3 are negative about its effects.

Table 4: Grand Total Positive and Negative Effects

Positive Effect	Negative Effect	Total
429	171	600
71%	29%	100%

This table shows positive and negative contents in the articles reviewed, on the effects IFRS 3 in percentages. The table shows 429 units of positive content on IFRS3, and 171 negative content on IFRS3, totaling 600 units of positive and negative contents.

CONCLUDING COMMENTS

This study concludes that the greatest or the most significant effect of IFRS 3 is the increased comparability on international level, evidenced by the changes in accounting principles for business combinations and goodwill. These elements are widely accepted by many studies as favorable to many companies and investors. However, increasing cost of compliance and preparation, are areas where IFRS is indicated as having the greatest negative effect. Thus, the overall benefit of IFRS 3 is unclear.

Relevance, reliability and comparability (RRC) are the key words that qualify and describe the type of information businesses are expected to provide, under IFRS 3 for business combinations, such as in acquisitions and mergers (Holmlund & Thunvall, 2014). IFRS has done a good job framing the principles for the recognition and measurement of acquired assets and liabilities, especially the determination of goodwill and the necessary disclosures. However, there remains the need to address areas of greatest negative impact, such as the increasing cost compliance and cost of preparation. Credit goes to the US Financial Accounting Standards Board (FASB) and the IFRS 3 (2004) for the hard work that resulted in IFRS 3 (2008). Their revisions led to birth of IFRS3 and the high degree of convergence between IFRSs and US GAAP in the accounting for business combinations we see today. However, significant differences still exist. Most importantly, this study recommends, finding ways to reduce cost of compliance and preparation, for example through incentives, such as compliance incentives.

APPENDICES

Appendix A: IFRS Timeline

Date	Event	Accomplishment
July 2001	Project from the old IASC added to IASB agenda	History of the project
5 December 2002	Exposure Draft ED 3 *Business Combinations*. Proposed amendments to IAS 36 and IAS 38 published	Comment deadline 4 April 2003
31 March 2004	IFRS 3 *Business Combinations* (2004) and related amended of IAS 36 and IAS 38 released IFRS 3 supersedes IAS 22.	Effective for business combinations for which the agreement date is on or after 31 March 2004
29 April 2004	Exposure Draft *Combinations by Contract Alone or Involving Mutual Entities* published	deadline 31 July 2004
30 June 2005	Exposure Draft *Proposed Amendments to IFRS 3* published	Comment deadline 28 October 2005
10 January 2008	IFRS 3 *Business Combinations* (2008) issued or released	Applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
6 May 2010	Amended by *Annual Improvements to IFRSs 2010* (measurement of non-controlling interests, replaced share-based payment awards, transitional arrangements for contingent consideration)	Effective for annual periods beginning on or after 1 July 2010
12 December 2013	Amended by *Annual Improvements to IFRSs 2010–2012 Cycle* (contingent consideration)	Applicable for business combinations for which the acquisition date is on or after 1 July 2014
12 December 2013	Amended by *Annual Improvements to IFRSs 2011–2013 Cycle* (scope exception for joint ventures)	Effective for annual periods beginning on or after 1 July 2014

Source: Deloitte (2016) http://www.iasplus.com/en/standards/ifrs/ifrs3. *Accounting For Business Combinations: IFRS 3 (2008) And IFRS 3 (2004).*

Appendix B: Areas of IFR3 Change /Impact

Area	Description
Transaction costs	acquisition costs such as adviser's fees, stamp duty and similar costs cannot be included in the measurement of goodwill
Calculation of goodwill	pre-existing ownership interests are measured fair valued at acquisition date option to measure non-controlling interests on the basis of fair value or net assets (transaction by transaction)
Contingent consideration (e.g. earn-outs)	fair value accounting at the acquisition date subsequent changes do not impact goodwill but are accounted for separately
Transactions arising in conjunction with business combinations	new detailed guidance on the split between compensation and consideration for replacement share-based payment awards
	settlement of pre-existing relationships (contracts, legal cases, etc.) can result in a gain/loss
	unrecognized deferred taxes no longer impact goodwill on subsequent measurement
Recognition and measurement	'reliable measurement' exclusion for intangible assets removed new guidance on indemnification assets and assets not expected to be used
Changes in ownership interests	buying or selling minority interests in a subsidiary only impacts equity loss of control requires fair valuing of retained holding and recycling of reserves

Source: Deloitte (2016) Retrieved from http://www.iasplus.com/en/standards/ifrs/ifrs3

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BIOGRAPHY

Walid Masadeh is an Assistant Professor of Accounting at the Hashemite University. He can be reached at the Hashemite University, Faculty of Economics, Department of Accounting. Email: waldi@att.net or Drwaleed@Hu.Edu.Jo

Ebrahim Mansour is an Associate Professor of Accounting at the Hashemite University. He can be reached at the Hashemite University, Faculty of Economics, Department of Accounting, Email: ebrahim_mansour@hu.edu.jo

Wasfi AL Salamat is an Assistant Professor of Finance at the Hashemite University. He can be reached at the Hashemite University, Faculty of Economics, Department of Banking and Finance. Email: wasfisalamat@yahoo.com

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THE EFFECT OF CULTURAL INTEGRATION ON FINANCIAL PERFORMANCE POST-MERGER

Rishma Vedd, California State University, Northridge
David Liu, California State University, Northridge

ABSTRACT

This research study examined the effects of combining unlike corporate cultures. We analyzed both successful and unsuccessful mergers measured by post-merger performance indicators for the year before and after the merger. Our null hypothesis states that the success or failure of organizations in combining their respective corporate cultures is directly proportional to their financial performance, measured by the aforementioned indicators of Stock Price, Net Income, and Earnings per Share both before and after the merger. Our alternative hypothesis states that there is an inversely proportional relationship for financial performance after a merger. The results conclude that the probability of an improvement or decline of financial performance after a merger is 0.5 depending on the success or failure in combining corporate cultures. The study shows that five subjects accepted the null hypothesis, two subjects accepted the alternative, and three subjects rejected both the null hypotheses and the alternative hypotheses.

JEL: F0, G0

KEYWORDS: Corporate Culture; Merger; Post-Merger Performance

INTRODUCTION

In this study, we observe the effect that a successful merger between two corporate cultures has on the financial success of the merger. We examine different successful and unsuccessful corporate culture mergers and how this relates to the post-merger performance by looking at Stock Price, Net Income and Earnings per Share before and after the merge. In order to have a clear understanding of the research findings and to facilitate a clear path through our thought process, we first explain the notion of corporate culture and how does corporate culture affect companies' performance, through a brief literature review. Next, we explore prior research that suggests a relationship between corporate culture and companies' performance after mergers. A recent study by Professor Christa H.S. Bouwman, an Associate Professor of Banking and Finance at Case Western Reserve University and a Fellow at the Wharton Financial Institutions Center, suggested that future research on corporate culture and M&A should address how combining two corporate cultures affect post-merger performance. That is the central question that this study addresses. Although, different published research provides insights on how management should support the integration between corporate cultures in an M&A, no research has provided quantitative data on how performance varies depending on how successful the two corporate cultures were combined. The focus of this study is to provide a quantitative analysis to reveal a cause and effect relationship between corporate culture, M&A, and financial performance.

Afterwards, by conducting thorough research on several mergers that had corporate culture influence at their roots, we examine their performance prior to and after the merger. In conclusion, this study should be able to determine whether there is a relationship between corporate culture and performance of a company after a merger. This paper is structured in the following order: literature review, data and methodology, research findings, results and discussion, and conclusion. The literature review discloses the prior research regarding mergers and acquisitions, their financial impact, and the outcomes of those business combinations. The data and methodology sections explain our research design and data collection methods for the analysis of post-merger financial performance. The consequences of these mergers or acquisitions are discussed in the results and discussion section. Finally the conclusion presents the findings of the study and suggests areas of future research.

LITERATURE REVIEW

For the purposes of this study we define corporate culture based on precedents provided by several research studies and books, such as "Matching Corporate Culture and Business Strategy" by Schwartz and Davis and "Organizational Cultures: Types and Transformations by Pheysey. While it could be inferred that corporate culture is a subjective term that can be interpreted in various ways, these works have definitions that are somewhat similar. Below is a small sample of how researchers define corporate culture. In their research about Matching Corporate Culture and Business Strategy, Howard Schwartz and Stanley M. Davis (1981) define culture as "a pattern of beliefs and expectations shared by the organization's members. These beliefs and expectations produce norms that powerfully shape the behavior of individuals and groups in the organization." They also refer to Anthropologist C. S. Ford, 1939, who defined culture as "composed of responses which have been accepted because they have met with success." Also, the culture of an organization is invented, developed and/or discovered by the members of that organization (Schwartz and Davis, 1981). Schein (1985) also explains the three major levels of organizational culture: Artifacts and Creations, Values, and Basic Assumptions; ranked from most to least visible. The relationship between these three levels can be described by the Iceberg model, where most of the iceberg is underneath the surface where it can't be seen and only a fraction visible above water. In this case, the Values and Basic Assumptions are the most valuable features of corporate culture, but they are, unfortunately, below the surface and can't be readily observed.

The Artifacts and Creations, however, only constitute a fraction of the equation, but they are the most visible characteristics of corporate culture. Corporate culture is the dominant values adopted by an organization or a set of values and assumptions that underlie the statement: "this is how we do things around here" (Deal and Kennedy, 1982; Quinn and Rohrbaugh, 1983). Further, corporate culture can be looked at as a cognitive map that influences the way in which the context is defined, because it helps select mechanisms or norms and values which people use to navigate events (Jones, 1983). Corporate culture also refers to a pattern of beliefs, symbols, rituals, myths, and practices that have evolved over time in an organization (Pheysey, 1993). After examining how different researchers defined corporate cultures, it is important to dig deeper and define the relationship between corporate culture and performance. Previous research has linked cultural success to positive financial performance; below is a sample of these findings. Sadri and Lees (2001) have concluded that: on one hand, a positive corporate culture could provide significant benefits to the organization, and give it a leading competitive edge over other firms in the industry. On the other hand, an unconstructive culture could impact the organization negatively and affect its performance as it could prevent firms from adopting the necessary strategic or tactical changes that help achieve the anticipated results (Jopson, 2013).

Moreover, it has been found that when employees adapt to a culture and positively perceive it, performance will increase. However, if they don't adopt to the culture, the climate they're working in is perceived to be poor and that lowers motivation, which in turn negatively affects performance (Schwartz and Davis, 1981). A recent research by Simoneaux and Stroud (2014) concluded that firms with strong positive cultures experience many benefits including having happy employees, who make happy customers. Not to mention that successful culture initiates higher productivity that translates into higher profits (Simoneaux and Stroud, 2014). In his research, "The Drivers of Success in Post-Merger Integration", Epstein (2004) concluded that: "When the company cultures are not well integrated, the results are often disastrous." He analyzed the Daimler-Chrysler merger and blamed Chairman, Jurgen

Schrempp, for not focusing on the importance of company culture, which led to financial losses (Epstein, 2004). In another research, Innovative HR strategies for post-merger performance –issue and concerns, Jayesh (2013) states that: "cultural incompatibility is increasingly becoming acknowledged as a source of merger problems, which ultimately affects the financial performance of the acquiring firm."

In their 2008 paper Martynova and Renneboog survey and review of many academic works that address several key questions about Merger and acquisition cycles and their effect on the market for corporate control. An important finding of this survey is that there are distinct patterns that are cyclical in nature and are characterized an ebb and flow of M & A activity. The paper identifies these periods such as the 1960's when conglomerates became more common and the 1980's into the 90's when this trend diminished. The authors also pinpoint some of the factors that lead to the ebbs of M&A activity. These include being preceded by industrial developments and/or technological innovations. Also these are times of credit expansion and stock market growth. The authors indicate that the takeovers at the ends of high M&A activity may be less rational and thus less economically justifiable (Martynova and Renneboog, 2008). The main focus of a work by Hackbarth and Morellec (2008) is the development by the authors of a model which examines the dynamics of stock returns in firms involved in mergers and acquisitions. The methodology employed here samples takeover activity between 1985 and 2002 of 1,086 publicly traded U.S. firms. A key finding here is that this model generates new predictions regarding the dynamics of firm-level betas for the time period surrounding control transactions (Hackbarth and Morellec, 2008).

The central thesis of this paper is that when highly valued firms acquire other firms using their equity as currency, they do indeed create value for the acquiring firm. The authors observe that in the acquisition wave of the late 1990's many of these were consummated with equity of the firm rather than with cash. The equity of the acquiring firm was sometimes inflated by historically high stock valuation. The authors also propose that a reason for these acquirements were that these stock-financed acquisitions were effectively a means to obtain hard assets at a discount. This discount they note, came at the expense of the long-term shareholders of the acquired companies (Savor and Lu, 2009). The authors Morellec and Zhdanov explore takeovers (mergers and acquisitions) by presenting a model that uses the market value of the merging firms as well as other factors to make predictions about stock performance. The model assumes competition and imperfect information and the authors state the model yields predictions for stockholders that are effectively compatible with available information. The model is a means of evaluating the benefits of the takeover (Morellec and Zhdanov, 2005).

In conclusion, past research has proved that there is, in fact, a direct relationship between culture and performance; however, this research only investigated qualitative data and ignored the fact that cultural success, qualitatively, is a subjective matter. Later in this research, we attempt to determine if cultural success translates into economic profits. After establishing, through research findings, that there is a correlation between successful corporate cultures and positive financial performance, discussed below are research findings that relate successful corporate culture integration and successful mergers. In a recent survey by McKinsey and the Conference Board, 50 percent said that "cultural fit" lies at the heart of a value-enhancing merger, and 25 percent called its absence the key reason a merger had failed (McKensey & Company, 2010). Further, in an attempt to discover the impact of culture on Mergers and Acquisitions, Mohibullah (2009) discussed that it is undisputable that some mergers fail because of unforeseen economic factors; however, in order for a merger to succeed, economic elements alone are insufficient. These research findings also concluded that most merger failures are attributed to a clash between the organizations' two corporate cultures (Mohibullah, 2009). Additionally, Recklies' work attributed the success of a merger to the creation of a unified culture that integrates the two organization's cultures into one and concluded that the success of the whole merger is largely dependent on this successful cultural merge. He claims that it is necessary for employees from both organizations to collaborate in order to reach a meeting point where the optimum practices are adopted from both cultures to create a new culture that achieves the best possible results (Recklies, 2001). In their respective papers about the M&A process and the use of corporate culture analysis, Yaakov Weber and Shlomo Yedidia Tarba (2012) both quoted that corporate culture, especially cross-cultural management is a key factor in the successful integration of two organizations. In conclusion, this literature review introduced the concept of corporate culture, and supported the hypothesis that successful corporate cultures affect companies' performance, and the success of mergers and acquisitions does not depend solely on financial factors, but on cultural integration as well.

DATA AND METHODOLOGY

Research Design

In order to create feasible criteria to produce effective results, we chose to focus our research on public mergers since most of the data needed to test this hypothesis would be more readily available. To properly test our hypothesis, the scope included ten mergers/acquisitions. Testing the financial success of a merger based on its ability to successfully combine different cultures is no easy task since quantifying the concept of synergy, which mergers are based on, is difficult. However, it can be inferred, from previous research, that financial success of a merger could be used as an indicator that a merger was successful in achieving this synergy. In turn, achieving optimum synergy can't be effectively achieved without successfully combining the corporate cultures of the combining corporations. For purposes of our research, our *null* hypothesis states that: success or failure of organizations to combine their respective corporate cultures in a merger/ acquisition has a directly proportional relationship to their financial performance, measured by comparing Stock Price, Net Income, and Earnings per Share, before and after the merger. In return, the *alternative* hypothesis states that: success or failure of organizations to combine their respective corporate cultures in a merger/acquisition has no proportionate relationship to their financial performance.

Data Collection

For purposes of this study and in order to have a clear picture, we examined ten mergers with corporate cultures at the core of their deals. In order to prevent any industry biases, the companies chosen were from a variety of diverse and vital industries including: the retailing industry, the food and beverages industry, the tech industry and a few others. Some of the mergers discussed are International mergers; these types of merges broaden perspective on the research. Further, the mergers were chosen to represent several time spans in order to eliminate a bias based on a particular era or time frame. The companies were chosen based on expert belief that cultural integration played a significant role in saving, or drowning, a merger. Financial data presented in this study are collected from official 10-Ks, Google Finance, Yahoo Finance, and the NASDAQ website.

Research Findings

Below is a collection of articles that explain and support why there were either reassurance that cultural integration was going to produce desirable results, or warnings that cultural clashes are going to present challenges for the merged entities. The companies are numbered from one to ten, with no favorable order.

Anheuser-Busch- InBev: The article, In Pursuit of Global Greatness, discusses the degree of difficulty that is faced by major companies trying to integrate their operations after a merger. De Haro tries to present a solution to the struggle by discussing the Anheuser-Busch and InBev merger where a source inside InBev explained how the two companies successfully merged their corporate cultures. He explained that it is important to disregard the origin and nationality of the companies and focus on the skills and competencies of key leadership personnel. De Haro also quotes Tony Milikin, the chief procurement officer from Anheuser-Busch InBev, admitting that, "One key to the success of a merger is the degree to which the two corporate cultures mesh." (A.T.Kearney, 2010). Both companies were a perfect match because they both strongly focused on cost management.

Google-Motorola: Google's acquisition of Motorola in 2011 was a gamble, as believed by financial analysts that is uncertain to pay off. According to, Indu Perepu, the author of the case "Google's Acquisition of Motorola Mobility", the analysts were concerned about the acquisition because both companies had very different cultures, belonged to different eras and dealt in different industries. Ed Zander, the CEO of Motorola, is quoted as saying that: "the hardest thing he had faced in his working career was to change the culture of Motorola." Not to mention, Henry Boldget, from Business Insider, was quoted saying that: "Successfully integrating Motorola- and making the merger work- would require a world class integration team." (Perepu, 2013).

Disney-Pixar: Even though a lot of people were betting on the failure of the Disney-Pixar deal because of the apparent lack of cultural fit, integrating the two corporate cultures was a success. "How Disney and Pixar are making the integration work holds lessons for other executives faced with the delicate task of uniting two cultures." (Barnes, 2008). The fear was because "Sometimes, entrepreneurial and creative types [from Pixar] have a hard time fitting into a corporate culture, especially one as traditional as Disney," says Fred Lipman of the law firm Blank Rome in Philadelphia (Monitor, 2006).

AOL-Time Warner: The AOL-Time Warner merger was speculated to be a disaster from the beginning due to the completely different cultures of both companies. In the article, AOL Time Warner Marches On, Gabriel Snyder describes that the AOL culture is not exactly meshing with Time Warner's way of life (Snyder, 2001). Later in 2004, Kara Swisher wrote a book that explained why the merger had failed, and explained that Time Warner was not pleased that it was taken over by a mere Internet company which "helped fuel a celebrated clash of corporate culture." (Swisher, 2003).

Amazon-Zappos: In the article, Jungle Survival, Ed Frauenheim (2009) described the culture of Zappos as its biggest asset. The company's culture is built on ten core values that encourage uniqueness, amusement, and transparency, while at the same time maintain results and encourage growth. On the other hand, amazon's culture is more about convenience with a disregard to human interactions, which costs money but keeps the customers coming back. Even though there are major cultural differences between the two companies, they were able to focus on the similarities that can initiate compatibility. Amazon framed the merger as "the perfect match of like-minded companies. Both firms, Amazon said, are innovative long-term thinkers that are passionate about serving customers." (Frauenheim, 2009).

*Daimler-Chrysler***:** When news started surfacing about the Daimler-Chrysler deal in 1998, talks about the importance of integrating the two corporate cultures began. Before the merger, Mitsubishi Motors Corp. President Katsuhiko Kawasoe said that: "Harmonization of corporate culture will be crucial for a successful merger of Daimler-[Chrysler]." (Kawasoe, 1998). After the merger, critics asserted that combining the different cultures would be a major obstacle even though the combination appeared to be a great success on paper (Krebs, 1999). This is an example of an International merger that proves that even if two companies are from the same industry, there can still be major obstacles to the mergers because of language barriers, different backgrounds, and origins.

Exxon-Mobil: In 1998, prior to the merger of the two biggest oil companies, debates arose about whether there will be any cultural clashes between the two companies. However, experts argued that the business practices of both companies were not especially different and that there is a slight chance that the culture clash would hinder the merger (ExxonMobil Company, 1998). Eight years later by 2005, the merger had been "considered one of the industry's most successful mergers." The two companies tried to merge operations in 1911 but the deal was dismantled, which raises speculations on whether the merger would have been as successful if it went through in 1911 (Reddy, 2005).

Sprint-Nextel: In 2004, Sprint and Nextel announced their $35 billion merger agreement to create "the nation's third-largest wireless company." Even though there were predictions about the merger's failure to mesh corporate cultures, Sprint's Tim Donahue was optimistic about the cultural differences of both companies and said that: "I think [Nextel's] culture stands for entrepreneurship. I think it stands for innovation, and I think it stands for a culture that likes to win. It's perfectly aligned with ours, and I think we're going to win." (McCarthy, 2004). However, three years later, and after many failed attempts to merge the two cultures, corporate clashes had hindered the growth of the new company as is stock continued to decline and it continued to lose customers (Hart, 2007).

Office Max – Office Depot: In 2013, Office Depot and Office Max announced their merger in a stock for stock deal. The CEO of office depot regarded the merger as a great opportunity to merge operations and benefit from efficiency practice; he emphasized that both companies shared the same vision and culture, which is a great advantage for both companies to move forward (Jopson, 2013). The newly merged entity hired The Boston Consulting Group to support its post-merger integration process (Office Depot Company, 2013). Furthermore, the company appointed a new CEO who "has decades of experience integrating companies and cultures" (Pounds, 2013).

Bank of America-Merrill Lynch: In 2008, Bank of America and Merrill Lynch announced their merger. Right after the merger, rumors have been surfacing about clashes in the cultures of the two financial institutions. The conflict between the two former competitors became apparent shortly after the announcement. Moynihan, BofA's president was still optimistic that Merrill lynch was going to make positive contributions to BofA's culture (Horwood, 2009). Later after the merger, it became clearer that the divergent corporate cultures were causing issues because Merrill Lynch culture leaned more towards taking risks and BofA's was the exact opposite: avoiding risks (Anonymous, 2009). Below is Table 1 that summarizes the discussion presented above.

Table 1: Selected Merged Entities

Company 1	Company 2	Type	Merged Entity	Reassurance/Warning	Merger Date
Anheuser-Bush	InBev	Merger	Anheuser-Busch InBev	Reassurance	2008
Google	Motorola	Acquisition	Google	Warning	2012
Disney	Pixar	Acquisition	Disney	Reassurance	2006
AOL	Time Warner	Acquisition	AOL	Warning	2000
Amazon	Zappos	Acquisition	Amazon	Reassurance	2009
Daimler	Chrysler	Acquisition	Daimler	Warning	1998
Exxon	Mobil	Merger	ExxonMobil	Reassurance	1998
Sprint	Nextel	Merger	Sprint	Warning	2005
Office Depot	Officemax	Merger	Office Depot	Reassurance	2013
Bank of America	Merrill Lynch	Acquisition	Bank of America	Warning	2008

This table represents the scope of the study and lists ten mergers/acquisitions that were examined. Company 1 and Company 2 in Table 1 provide the name of the companies that were merged or acquired. The Type column indicates the type of business combination, and the name of the merged or acquired of entity is shown in the Merged Entity column. The reassurance/Warning column indicates whether or not the combination of both corporate cultures was successful, and finally the Merger Date states the date of the merger or acquisition.

RESULTS AND DISCUSSION

Anheuser-Busch InBev

Anheuser-Busch InBev merged in 2008; the financial data represented in Table 2 show a declining trend from 2006 to 2008 in the stock price, but an opposite trend appeared after the merger in 2009 and continued till 2010. The Net Income and EPS data show inconsistent trends that fluctuate every year; however, the post-merger data in 2009 and 2010 show a significant increase compared with the years prior to the merger. These financial data accept the null hypothesis, and reject the alternative hypotheses, because even though Anheuser-Bush InBev was perceived as successful in combining corporate cultures, and its financial performance improved after the merger compared with prior years (Anheuser Busch InBev Company, 2008).

Table 2: Selected Financial Data for Anheuser-Busch Inbev

Year	2006	2007	2008	2009	2010
Stock Price	$49.79*	$51.99*	$23.08*	$29.03	$51.71
Net Income, in millions	$2,805.68*	$4,450.99*	$2,921.60*	$9,649.00	$7,334.00
EPS	$3.04*	$1.88*	$3.12*	$4.16*	$3.32*

*This table shows key financial data of Anheuser-Busch InBev that includes stock price, net income in millions, and EPS in 2009 and 2010. Anheuser-Busch InBev merged in 2008 and to evaluate financial performance of the company, we examined Anheuser-Busch's stock price, net income, and EPS in 2006, 2007, and 2008 before the merger. Our analysis demonstrates the stock price had a declining trend from 2006 to 2008, but an opposite trend appeared after the merger in 2009 and continued till 2010. The Net Income and EPS data show inconsistent trends that fluctuate every year; however, the post-merger data in 2009 and 2010 show a significant increase compared with data prior to the merger. *The values were recorded based on the exchange rates of Euro to US Dollar as of the last day of December for the respective year posted on the Federal Reserve's Website https://www.federalreserve.gov/Releases/H10/Hist/dat00_eu.htm.*

Google-Motorola

Google acquired Motorola in 2012, the year-end share price, Net Income, and EPS all show a positive trend that started in 2010 and continued after the merger until 2014. These financial data accept the alternative hypothesis because even though Google and Motorola were perceived as unsuccessful in combining their corporate culture, the consolidated financial data show an upward trend that started before and continued after the merger, concluding that the hardships presented by the inability to integrate corporate cultures didn't affect Google's financial performance (Google Company, 2012).

Table 3: Selected Financial Data for Google-Motorola

Year	2010	2011	2012	2013	2014
Stock Price	$296.69	$322.63	$349.65	$560.93	$526.40
Net Income, in millions	$8,505	$9,737	$10,737	$12,920	$14,444
EPS	$13.16	$14.88	$16.16	$19.07	$21.02

This tabled displays the key financial performance data of Google in 2010 through 2014. Google acquired Motorola in 2012. Among the key financial performance data selected were: the year-end share price, Net Income, and EPS. The selected financial data show a positive trend that started in 2010 and continued after the merger up to 2014.

Disney-Pixar

Disney acquired Pixar in 2006. While there was no definitive trend in the stock price per share, the overall value of the stock increased significantly after the merger compared to prior years. The Net Income and EPS showed upward trends even before the merger, but the overall value after the merger are significantly higher than before. These financial data accept the null hypothesis because Disney and Pixar were perceived as successful in combining their corporate cultures and there has been an overall post-merger financial performance improvement (Disney Company, 2006).

Table 4: Selected Financial Data for Disney/ Pixar

Year	2004	2005	2006	2007	2008
Stock Price	$29.04	$23.93	$34.21	$35.43	$34.70
Net Income, in millions	$2,345	$2,533	$3,374	$4,687	$4,427
EPS	$1.12	$1.24	$1.64	$2.25	$2.28

This table defines Disney's financial performance from 2004 to 2008. Disney's financial performance is outlined by the year-end stock price, net income, and EPS. Disney acquired Pixar in 2006. While there was no definitive trend in the stock price per share, the overall value of the stock increased significantly after the merger compared to prior years. The Net Income and EPS showed upward trends even before the merger, but the overall value after the merger are significantly higher than before.

AOL-Time Warner

AOL acquired Time Warner in 2000. The stock price witnessed a significant increase in 1999, but started to decline in the year of the merger and the years after. The company reported income in 1998, but the losses started in 1999 and plummeted almost two folds in the year of the merger and the two years after. There was a downward trend in the company's EPS starting in 1999, but the losses were more sever after the merger in 2001 and 2002. These financial data accept the null hypothesis because AOL-Time Warner was unsuccessful in combining its corporate culture, and it reflected in its financial performance which declined after the merger compared to the prior years (AOL-Time Warner, 2000).

Table 5: Selected Financial Data for AOL - Time Warner

Year	1998	1999	2000	2001	2002
Stock Price	$76.75	$227.63	$104.40	$32.11	$13.10
Net Income, in millions	$168	($2,394)	($4,370)	($4,934)	($98,698)
EPS	($0.31)	$1.35	0.79	($1.11)	($22.15)

This table displays AOL's financial performance from 1998 to 2002. AOL acquired Time Warner in 2000. Based on the selected financial data, we noted the stock price significantly increased in 1999, but started to decline in the year of the merger and the years after. The company reported income in 1998, but the losses started in 1999 and plummeted almost twice as much two years after the merger. There was a downward trend in the company's EPS starting in 1999, but the losses were more sever after the merger in 2001 and 2002.

Amazon-Zappos

Amazon acquired Zappos in 2009. In terms of stock price, Amazon took a big hit in 2008 compared to 2007, but the stock value appreciated in 2009, the year of the merger, and continued the upward trend in 2010 and 2011. Amazon's Net Income and EPS show a positive trend that started from 2007 and continued till 2010, after the merger. However, in 2011, the company's Net Income and EPS dropped, but were still higher than the pre-merger values. These financial data accept the null hypothesis since the post-merger financial data shows an overall higher value than the pre-merger financial data when Amazon and Zappos were perceived as having successful post-merger cultural integration (Amazon Company, 2009).

Table 6: Selected Financial Data for Amazon – Zappos

Year	2007	2008	2009	2010	2011
Stock Price	$235.00	$130.00	$341.00	$456.00	$439.00
Net Income, in millions	$476	$645	$902	$1,152	$631
EPS	$1.12	$1.49	$2.04	$2.53	$1.37

This table defines Amazon's financial data from 2007 to 2011. Among the financial indicators were stock price, net income, and EPS. Amazon acquired Zappos in 2009. In terms of stock price, Amazon took a big hit in 2008 compared to 2007, but the stock value appreciated in 2009, the year of the merger, and continued the upward trend in 2010 and 2011. Amazon's Net Income and EPS show a positive trend that started from 2007 and continued until 2010, after the merger. However, in 2011, the company's Net Income and EPS dropped, but were still higher than the pre-merger values.

Daimler-Chrysler

Daimler and Chrysler merged in 1998. The stock price for Daimler decreased in 1997, compared to 1996, increased again in 1998, but decreased after the merger in 1999 and 2000. The Net Income and EPS increased in 1997, decreased in the year of the merger, but increased again afterwards. These financial data are inconsistent and they reject the null hypothesis and accept the alternative hypothesis. Daimler-Chrysler faced a lot of obstacles in combining its corporate culture, however the financial data do not present a useful trend and no proportionate relationship to their financial performance (DaimlerChrysler Company, 1998).

Table 7: Selected Financial Data for Daimler-Chrysler

Year	1996	1997	1998	1999	2000
Stock Price	$109.20*	$78.18*	$98.14*	$75.00*	$42.00*
Net Income, in millions	$5,045.60*	$7,188.61*	$5,658.20*	$5,819.55*	$7,410.89*
EPS	$5.27*	$7.44*	$5.76*	$5.76*	$7.32*

*This table shows the trend of Dalmer-Chrysler's stock price, net income, and EPS from 1996 to 2000. Daimler and Chrysler merged in 1998. The stock price for Daimler decreased in 1997, compared to 1996, increased again in 1998, but decreased after the merger in 1999 and 2000. The Net Income and EPS increased in 1997, decreased in the year of the merger, but increased again afterwards. *The values were recorded based on the exchange rates of Euro to US Dollar as of the last day of December for the respective year posted on the Federal Reserve's Website https://www.federalreserve.gov/Releases/H10/Hist/dat00_eu.htm and https://www.federalreserve.gov/Releases/H10/Hist/dat96_ec.htm*

Exxon-Mobil

Exxon Mobil merged in 1998; its stock price started an upward trend prior to the merger and after, but the post-merger stock prices are almost double the pre-merger price. The Net Income and EPS do not show a consistent trend concluding that these financial data reject the null hypothesis and accept alternative hypothesis because even though Exxon Mobil succeeded in combining its corporate culture, Net Income and EPS declined the year of the merger and the year after, but ultimately increased after two years.

Table 8: Selected Financial Data for Exxon Mobil

Year	1996	1997	1998	1999	2000
Stock Price	$24.50	$30.34	$36.56	$64.31	$69.88
Net Income, in millions	$10,474	$11,732	$8,074	$7,910	$17,720
EPS	$2.91	$3.28	$2.28	$2.25	$5.04

This table defines Exxon Mobil's financial performance from 1996 to 2000. Financial performance of the company was defined based on the stock price, net income, and EPS. Exxon Mobil merged in 1998; its stock price started an upward trend prior to the merger and after, but the post-merger stock prices are almost double the pre-merger price. The Net Income and EPS do not show a consistent trend.

Sprint-Nextel

Sprint Nextel merged in 2005; Stock Price, Net Income and EPS all show inconsistent trends: a decline before the merger, an upward trend in the merger date and another decline after the merger. These financial data reject the null hypothesis, and accept the alternative hypotheses, because even though Sprint-Nextel was regarded as an unsuccessful corporate culture merger, its financial performance was low both before and after the merger (Sprint – Nextel, 2005).

Table 9: Selected Financial Data for Sprint-Nextel

Year	2003	2004	2005	2006	2007
Stock Price	$20.67	$20.25	$23.36	$18.89	$13.13
Net Income, in millions	$1,290	($1,012)	$1,785	$1,329	($29,580)
EPS	($0.92)	($1.40)	$0.40	$0.34	($10.31)

This table represents financial data of Sprint-Nextel from 2003 to 2007. The financial data for analysis included stock price, net income, and EPS. Sprint Nextel merged in 2005. Stock Price, Net Income and EPS all show inconsistent trends: a decline before the merger, an upward trend in the merger date and another decline after the merger.

Office Max – Office Depot

Office Depot and Office Max merged in 2013; the stock price in the year of the merger and the year after increased compared to the prior years. The Net Income and EPS showed inconsistent results. These financial data reject the null hypothesis and accept the null hypotheses. Office Depot and Office Max were perceived as successfully integrating cultures, but the financial performance data were inconsistent to derive a conclusion (Office Depot Company, 2013).

Table 10: Selected Financial Data for Office Depot – Office Max

Year	2011	2012	2013	2014	2015
Stock Price	$4.27	$3.28	$5.29	$8.57	$5.64
Net Income, in millions	$728,262	($59)	$39	($519)	($69)
EPS	$0.22	($0.39)	($0.29)	($0.66)	$0.01

This table shows financial data of Office Depot from 2011 to 2015. The representatives of the company's financial performance were stock price, net income, and EPS. Office Depot and Office Max merged in 2013; the stock price in the year of the merger and the year after increased compared to the prior years. The Net Income and EPS showed inconsistent results.

Bank of America-Merrill Lynch

Bank of America acquired Merrill Lynch in 2008; Stock Price, Net Income and EPS all showed an overall negative trend from 2006 before the merger till 2010 after the merger. The financial data accept the null hypothesis because Bank of America was facing difficulties in combining its corporate culture with Merrill Lynch, and that showed on its post-merger financial performance (Bank of America, 2008).

Table 11: Selected Financial Data for Bank of America-Merrill Lynch

Year	2006	2007	2008	2009	2010
Stock Price	$53.39	$41.26	$14.08	$15.06	$13.34
Net Income, in millions	$21,133	$14,982	$4,008	$6,276	($2,238)
EPS	$4.59	$3.30	$0.55	($0.29)	($0.37)

This table defines financial performance of Bank of America from 2006 to 2010. Stock price, net income, and EPS represent the company's financial performance for five years. Bank of America acquired Merrill Lynch in 2008; Stock Price, Net Income and EPS all showed an overall negative trend from 2006 before the merger till 2010 after the merger.

CONCLUSION

This study tested the effect that merging corporate culture has on the financial performance of the organizations after mergers. The study began by examining different research that provided several definitions of corporate culture. Afterwards, the study provided a brief link between organizational corporate culture and how it affects companies' financial performance. Previous research was explored in order to preliminary determine whether there is, in fact, a relationship between merging corporate cultures and the post-merger financial performance. After conducting the research on the Mergers and Acquisitions and comparing the financial performance of the ten subjects observed, the results show that five subjects accepted the null hypothesis, two subject accepted the alternative hypotheses and three subjects rejected both, the null hypotheses and the alternative hypotheses. This leads us to conclude that: the probability that the financial performance of a merger would improve or decline depending on the success or failure to combine corporate cultures is 0.5. Additionally, the study set its *null* hypothesis as: success or failure of organizations to combine their respective corporate cultures in a merger/ acquisition has a directly proportional relationship to their financial performance, measured by comparing Stock Price, Net Income, and Earnings per Share, before and after the merger. On the other hand, the study's alternative hypothesis stated that: success or failure of organizations to combine their respective corporate cultures in a merger/acquisition has an inversely proportional relationship to their financial performance.

The subjects examined in this study were chosen so that half of the sample would be successful corporate culture integration and the other half would be an unsuccessful corporate culture integration, as perceived by scholarly sources. The successful samples were: Anheuser-Busch InBev, Disney-Pixar, Amazon-Zappos, Exxon-Mobil, and Office Depot. The unsuccessful ones were: Google-Motorola, AOL-Time Warner, Daimler-Chrysler, Sprint-Nextel, Office Depot-Office Max and Bank of America-Merrill Lynch. After observing the financial data of the subject a year prior the merger and the year of the merger, the study found that five subjects accepted the null hypothesis, two subject accepted the alternative hypotheses and three subjects rejected both the null hypotheses and the alternative hypotheses. The five subjects that accepted the null hypotheses were: Disney-Pixar, AOL-Time Warner, Amazon-Zappos, Office Depot-Office Max and Bank of America-Merrill Lynch. The two subjects that accepted the null hypotheses were: Anheuser-Busch InBev and Sprint-Nextel. Finally the three subjects that rejected both hypotheses were: Google-Motorola, Daimler-Chrysler and Exxon-Mobil.

In conclusion, previous research has shown the importance of the notion of corporate culture and the effect that corporate culture has on the financial performance of companies in general; not to mention, the essential role that corporate culture integration plays in post-merger financial performance. The data presented in this paper conclude that there is a 0.5 probability that the financial performance of a merger would improve or decline. This value is largely dependent on the success or failure in merging corporate cultures. In other words, a company's post-merger performance is affected by whether successful cultural integration was achieved or not; however, it is not enough to determine the financial success, or failure, of a company just based on the success of cultural integration. While cultural assimilation are important, there are several other factors that also are significant in determining the post-merger financial performance of companies. Exploring these additional factors may offer areas of future research for scholarly scrutiny. Such factors as acquisitions by one firm of another in order to obtain new products or services or to gain entrée into new markets may be considered by future researchers. Other reasons for merger success may include simply increasing market share. Whatever insight sheds more light on this subject will surely benefit the entire financial community.

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BIOGRAPHY

Rishma Vedd is the Department Chair and a Professor of Accounting in the department of Accounting and Information Systems at California State University, Northridge. She received her Ph.D. from the University of Dundee, Scotland in 1999. She holds an active license of Certified Public Accountant (CPA) in British Columbia, Canada. She teaches graduate and undergraduate courses in advanced financial accounting, financial statement analysis and business valuation. Her current research interests include financial accounting issues in capital markets and international accounting issues including IFRS and accounting education. She has published papers in *Journal of Education for Business*, *Advances in Research*, *International Journal of Business and Finance Research*. She is currently a member of the Editorial Board of the *Journal of Business and Accounting*. She can be reached at the Department of Accounting & Information Systems, California State University, Northridge, 18111 Nordhoff Street, Northridge, CA 91330, rishma.vedd@csun.edu.

David Liu is the Associate Department Chair and a Professor of Information Systems in the department of Accounting and Information Systems at California State University, Northridge. He received his Ph.D. Engineering from the University of California Los Angeles in 1987. He teaches undergraduate and post-graduate courses in entrepreneurship, healthcare informatics, project management and data communications. His current research interests include structured radiology reporting, social media impact and entrepreneurship education. He has published numerous articles on topics related healthcare informatics since 2000. He can be reached at the Department of Accounting & Information Systems, California State University, Northridge, 18111 Nordhoff Street, Northridge, CA 91330, david.liu@csun.edu.

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FROM BIT VALLEY TO BITCOIN: THE NASDAQ ODYSSEY

Mark Lennon, California University of Pennsylvania
Daniel Folkinshteyn, Rowan University

ABSTRACT

Over the past 15 years, NASDAQ, the world's first all-electronic stock exchange, has actively engaged in efforts to serve the global digital economy by expanding its reach beyond its original domestic U.S. market. They have attempted to create a global 24/7 trading platform, to serve customers in the U.S., Japan, and Europe. These efforts have met with varying degrees of success. More recently, the renamed NASDAQ OMX Group has been experimenting with the disruptive fintech (financial technology) Bitcoin and its underlying technology blockchain to develop robust trading solutions, which drastically reduce transaction and record keeping costs. In this paper we analyze the various approaches taken by NASDAQ in its expansion ventures. We describe the similarities and differences in these undertakings, in order to identify successful strategies for firms who desire to increase the quality of their products while increasing efficiency and reducing the costs of their services. Drawing upon the strategy literature, we also develop theoretical models on how markets operate, and derive a series of propositions about the interplay between technology and markets.

JEL: M16, F23

KEYWORDS: Bitcoin, Blockchain, NASDAQ, Stock Exchanges, Markets, Disruption

INTRODUCTION

In June 2000, in a joint venture between the US stock exchange NASDAQ (National Association of Securities) and SoftBank, a Japanese computer conglomerate, a new stock exchange opened in Osaka, Japan. Named NASDAQ-Japan, the new exchange was intended to provide an Initial Public Offering (IPO) friendly environment where Japanese Dot Com startups, heavily concentrated in the "Bit Valley" region of Tokyo, could float stock issues. This new market was also planned to be part of a worldwide chain of NASDAQ exchanges (US, Europe, Japan), wherein participants in the market would have 24/7 access to all three markets (Hanes, 2000). While enjoying initial success, by September 2002 the market ceased operations.

What is intriguing about the NASDAQ-Japan market is that during its foundation, there were concurrently two products being developed, each of which was inherently reliant upon the other for its existence. One product was the IPO shares of the Dot Com startups. To enable their trading, however, another product, the actual stock market itself, was constructed. Once operations of NASDAQ-Japan began though, it shifted from being defined as a Product to that of a Market (Belson, 2000a)

This paper will seek to explain this phenomenon, by first examining the history of the market. From this, a theoretical perspective will be developed in order to understand how markets, market participants, and products help engender, rely upon, and influence one another in the inception, operation, and demise of a market.

We then review subsequent strategic ventures by NASDAQ to expand its operations, including European expansion attempts and more recently, efforts to leverage the recent fintech innovations of Bitcoin and blockchain technology, and analyze parallels and distinctions between these undertakings.

LITERATURE REVIEW AND BACKGROUND

NASDAQ-Japan: Opportunity for Market Creation

Six major forces converged to create the opportunity for a new market (NASDAQ-Japan), in order to satisfy the demand for a trading place for a new product (IPO shares). Table 1 summarizes these forces, followed by a description of each.

Table 1: Six Major Forces Converged to Create NASDAQ-Japan

Major Converging Forces for Creation of NASDAQ-Japan	
1.	Japanese investors coveted the high returns on investment attained by US investors in Dot Com IPOs.
2.	The need for capital by Japanese Dot Com startups was not satisfied by the existing Japanese Venture Capitalist system.
3.	Financial de-regulation by the Japanese government facilitated the formation of new stock markets.
4.	NASDAQ desired to create a 24/7 global trading system.
5.	Son Masayoshi, founder and CEO of SoftBank Holdings, sought to replicate his US IPO successes in Japan.
6.	A Market for new IPO friendly stock exchanges had already been created by NASDAQ-Japan's competitors.

This table lists the six major forces that led to the creation of NASDAQ-Japan

1. Japanese investors coveted the high returns on investment attained by US investors in Dot Com IPOs.

Japan has one of the highest savings rates in the world. However, domestic interest rates are extraordinarily low and below those of the US and Europe, between 1 and 2 % (Euromonitor, 2002). Since World War II, these low rates were maintained through the influence of the powerful Ministry of Finance. The Japanese economy was considered to be a 'bankers paradise' (Calder, 1993). Even until as recently as 2001, the banks still controlled approximately 64% of all financial-system assets (Vitols, 2001).

The Ministry systematically coerced banks and other financial institutions to use household savings as a cheap source of loans to industry. The low interest rates on these loans facilitated the building of Japan's manufacturing machine. These cheap commercial loans were the lynchpin of Japan Inc. and allowed large companies to keep unproductive workers in an effort to keep unemployment low (Hirsch, 1998).

In the process of artificially keeping rates of return on savings low, however, Japanese investors were cheated out of a global fair market return. With the bursting of the speculative real estate bubble of the 1980's, resulting in failures and mergers of numerous banks and financial institutions, the Japanese investor lost confidence in both the banking system and the Ministry of Finance.

Japanese investors were no longer willing to suffer low returns (Kattoulas, 2002). In order to achieve higher returns on their investments, Japanese investors were ready and eager to invest in IPOs of Internet startups. The rapidly aging population, who desired a comfortable retirement and sought to catch up for past lower returns, especially desired these higher returns. These senior savers held over 1,200 trillion Yen (US $10 trillion) in savings (Royama, 2000). Japanese investors' eagerness to take on higher risk with better returns, through investment in high technology stocks, is demonstrated by the enormous success of one of the first high tech IPOs. On October 23, 1998, shares in the world's largest mobile telecommunications company

NTT Docomo were issued on the Tokyo Exchange by its parent corporation NTT (Nippon Telephone and Telegraph.). So popular was this IPO that it was more than twice subscribed (Abrahams, 1998). Just 545,000 shares were issued in Japan only, with an initial offering price of $33,000. On the first day of trading the share price soared by 20%. It was thought to be the largest IPO ever. (Communications Today, 1998)

2. The Need for Capital by Japanese startups was not satisfied by the existing Japanese Venture Capitalist System

Throughout the late 1990's, in Tokyo alone over 1,200 internet related firms had been established (Yonekura & Lynskey, 2000), developing a wide variety of internet technologies and applications. By working independently, these firms sought to avoid the shortcomings of past Japanese collaborative efforts to produce software (Archordoguy, 2000). Most firms were concentrated in the Shibuya District of Tokyo, which was already popular among young people because of its convenient location and relatively low rents. In March 1999, the area came to be known as "Bit Valley" by proclamation of more than 300 entrepreneurs in homage to Silicon Valley (Shuichi, 2000).

This manner of creation of new technologies was quite unorthodox for Japan, as it followed more the American model (R. R. Nelson, ed, 1993). It did not proceed along the established method of development that gave rise to the "Japanese Miracle" - the industrialization and technological advancement of post-World War II Japan (Johnson, 1982). Supporting societal and industrial complementary institutions did not exist (Whitely, 1992). There was no type of overlapping network of corporate resources to draw upon (Gerlach, 1992).

Of most significance, the powerful Ministry of Trade and Industry (MITI) was not a factor. MITI did not engage in government policies wherein target industries were chosen and supported through a consortium of public and private funding (Zysman, 1983). Unlike the past, a combination of governmental and industrial organizations did not develop technologies, industries, and export markets (Freeman, 1987). Rather, like the United States, the formation of these Internet firms was in direct response to the growth in the ecommerce market (Lynskey, 2001).

Due to this fundamental difference in development patterns, conventional sources of Japanese venture capital funds were not appropriate (Suzuki, 2002). Unlike the US equity system of obtaining funding via an IPO, the Japanese venture capitalist system was debt driven. 80% of the typical Japanese startup funds came from various types of debt, such as convertible bonds, warrant bonds and outright loans (Borton, 1992). Because of past tight restrictions by the risk adverse Ministry of Finance, traditional Japanese venture capitalists were limited to subsidiaries of major commercial banks, securities firms, and trading houses (Fingleton, 2000).

Major Venture Capitalists included subsidiaries of the trading giant C. Itoh, Dai-ichi Kangyo Bank, the Long Term Credit Bank and major stock brokerage firms including Nomura and Yamaichi Securities. (In the late 1990's in the midst of the continuing banking crisis, Yamaichi Securities went bankrupt and the Long Term Credit Bank was nationalized and sold to foreign investors. (Shuichi, 2000)) This method of financing was consistent with Schumpeter (1936)'s assertion that banks be the providers of capital in that they can create credit. Unlike their US counterparts, Japanese venture capitalists, with their steady streams of revenue from interest and payments on the debt, were not pressured to rapidly take firms public (Turpin, 1993). Even if the Japanese venture capitalists wanted to quickly do an IPO, they were hindered by the complexities of the Japanese stock exchanges.

Over 90% of all stocks traded in Japan are in the first and second listings of the Tokyo Stock Exchange (TSE). Because of the influence of the securities adverse Ministry of Finance, which preferred startup firms to fund expansion through bank loans, the average age for a firm to go public on the TSE was seventeen years (Hamlin, 2000), with the process of listing taking two to four years. From a Schumpeterian definition, the founders of these 'startup' firms were no longer 'entrepreneurs' but rather 'managers'.

With the coming of the internet age and the accelerated pace of technology and firm creation in a high-velocity markets (Eisenhardt & Martin, 2000), these restrictions on venture capitalists, startups and IPOs were both anachronistic and highly detrimental to Japan's economic competitiveness. Internet startups, lacking a credit history and history of operations, were viewed warily by the traditional debt driven Japanese venture capitalists. In any event, due to the decade old banking crisis, with banks saddled with a plethora of bad debts, conventional venture capitalist sources of financing were no longer available (Horiuchi, 2000). Financial resources were critical however, for with greater availability of funding, the propensity for entrepreneurs to found firms is higher (Shane, 1996).

3. Financial De-Regulation by the Japanese Government facilitated the Creation of New Stock Markets

On 11 November 1996, Prime Minister of Japan, Ryutaro Hashimoto, instructed the Ministry of Finance to fundamentally reform the Japanese financial system. In the same systematic and gradual manner as advocated by Spicer et al (2000) for the privatization of state owned firms, the Prime Minster, through the progressive implementation of reforms in the commercial code, wanted to create a "free, fair, and global" market and put Tokyo on par with New York and London as a world financial center (Tett, 1998). Modeled after the Anglo-American securities driven system, the idea was to reshape Japan from a bank-based to a capital market-based economy (Kanda, 2000).These reforms, nick named 'The Big Bang' were intended to reinvigorate the stagnating economy. Integral to the achievement of these goals was the simplification of the process of IPOs (Horiuchi, 2000).

As a response to the Ministry of Finance's failure to successfully manage the banking crisis, in June 1998 the Ministry was stripped of its securities oversight power. Further emulating Spicer et al (2000), an ancillary supporting organization was created. The functions of monitoring financial markets were transferred to a newly formed regulatory agency known as the Financial Supervisory Agency (FSA). Separate from the Ministry of Finance, FSA was reportable directly to the Prime Minister. The FSA was much more receptive to the formation of new securities markets (Royama, 2000).

4. NASDAQ desired to create a 24/7 global trading system.

Riding high on its internet IPO successes in the US, in 1999 the US stock exchange NASDAQ sought to build the first global exchange by creating additional exchanges in Japan and Europe (Hanes, 2000). All linked together via a yet to be developed, software trading platform called "SuperMontage", the intent was to allow the offering, purchase, and sale of US, European, and Japanese stocks to any market participant on any of the three exchanges (Economist, 2002a). Using this trading platform, Japanese entrepreneurs would be able to raise capital directly from foreign sources. In addition to the acquisition of capital, by adopting a 'global mindset', the Japanese entrepreneurs could gain additional knowledge, which could be diffused throughout their organization (Hitt, Ireland, Camp, & Sexton, 2001).

Even more appealing was the opportunity for Japanese investors. For the first time they would be able to purchase directly US high tech, particularly Internet, stocks. It was hoped that by tapping into the pools of resources (Penrose, 1959) of international consumer savings, it would give European, American, and especially Japanese investors a more equitable return on their investments (Hadjian, 2000).

To enter the Japanese market, however, NASDAQ lacked several critical resources, and needed a partner firm to obtain them. These resources included knowledge about Japanese Internet startups and the ability to navigate the Japanese bureaucracy, as well as have a familiarity with the American IPO process (Hanes, 2000). Named Forbes Global magazine's 'Business Man of the Year 2000' for his efforts as matchmaker between Japan and the Internet, Son Masayoshi and his company SoftBank Holdings were the logical choice (Economist, 2002b).

5. Son Masayoshi, founder and CEO of SoftBank Holdings, sought to replicate his US IPO successes in Japan.

For a superb description and analysis of SoftBank and Son Masayoshi see Lynskey and Yonekura (2001). The following synopsis is adapted from that paper:

Son Masayoshi, a self-made billionaire, is not your typical Japanese. After inventing and selling to Sharp Corporation a multilingual pocket translator for US $1 million while still a student at UC Berkeley, Son used the proceeds to found SoftBank Holdings in 1981. Seeing major inefficiencies in the distribution and sales of packaged software in Japan, he seized the opportunity to become a large-scale distributor by consolidating and making more efficient the existing supply chains by identifying, coding, and then implementing routines (Argote, 1999).

From the revenue streams of the software sales, Son horizontally integrated his company by buying up Japanese computer magazines and trade shows. Son viewed his corporation to be similar to that of traditional Japanese firms, a collection of resources to be used to expand operations (Aoki, 1994). Critical to his successful growth, Son recognized a core competency in his ability to leverage revenue streams to expand into new markets (Prahalad and Hamel 1990). Following Nelson (1982)'s practice of 'searching' and 'seeking' for new opportunities, Son further expanded his horizontal integration by purchasing the premier American properties, the computer publisher Ziff-Davis and the tradeshow Comdex. From all these purchases, he was able to generate a steady stream of positive cash flow (Lynskey, 2001).

Realizing the potential of the Internet very early on, and with spare capital available generated by his other business units, Son went shopping in Silicon Valley. By making a few key investment choices (Ghemawat, 1991), SoftBank's strategy was to take stakes in major well known US internet startups, including Yahoo! and E*TRADE. From an initial investment of approximately US $900 million, post -IPO these firms were valued at over US $14 Billion. Expanding venture capital portfolio from this, by July 1999 SoftBank had invested an additional US $1.7 billion in over 100 Internet startups in both the US and Japan (Tanahashi, 2002).

Having grown wealthy through the rapid public offerings in the US, Son believed that in accordance with his high Absorptive Capacity (Zahra, 2002) of knowledge about new industries, as demonstrated by his previously successful foreign acquisitions, he could duplicate the Silicon Valley model of rapid IPOs in Japan (Aoki, 2001). To accomplish this, however, he needed a stock exchange that was conducive to IPOs. Realizing that he lacked the expertise and knowledge base to create an exchange by himself (Teece & Pisano, 1994), he required a partner with a brand name that would give legitimacy (Wernerfelt, 1984) in the eyes of the international financial community. He found a willing partner in the US stock exchange NASDAQ (Hanes, 2000).

6. A Market for new IPO friendly stock exchanges had already been created by NASDAQ-Japan's competitors.

In December of 1999, the existing Tokyo Stock Exchange (TSE) also recognized the opportunity for an IPO friendly stock market. The TSE responded by creating another stock exchange with easier listing requirements than the TSE, to facilitate the IPO's of Japanese Dot Com startups. Called MOTHERS (Market of the High-Growth and Emerging Stocks), this market gained instant legitimacy by touting its relationship to the venerable TSE, and implied that eventually these nascent startups would be financially strong enough to list on the Tokyo second or even more prestigious, first listings (Hadjian, 2000).

Meanwhile, the Japanese OTC (over the counter market) JASDAQ (the Japan Securities Dealers Association – no affiliation with the US NASDAQ) maintained that it was the only tried and true exchange for Japanese high tech IPO's. JASDAQ was an established market, trusted by both Japanese investors and stock traders. For the first time, in an effort to create a mobility barrier to entry (Caves & Porter, 1977) against the competing markets, JASDAQ began to actively advertise (Scherer, 1990), and court startup firms by asserting that by listing with JASDAQ, a startup would earn a certain cachet and approval by the Japanese business community (Hamlin, 2000). These two rivals were not looked at negatively by NASDAQ-Japan, however, as through Brandenburger et al. (1996)'s theory of 'co-opetition', these two markets helped establish the market for new stock exchanges.

Fleeting Operation of NASDAQ-Japan

The initial success then downfall of NASDAQ -Japan can be illustrated by examining the IPO and subsequent trading of shares of one Dot Com startup, Morningstar, an online Japanese investment information provider (Belson, 2000b). Debuting on June 23, 2000, Morningstar was closely watched, as it was the first SoftBank Capital (the venture capital arm of SoftBank Holdings) investment to go public on the exchange. SoftBank was heavily criticized by its detractors, as the floating of its own IPO on its own market could be seen as a major conflict of interest - a point to be explored later in this paper (Hamlin, 2000).

The initial offering price of Morningstar was 7 million Yen (US $60,000) per share. 400 new shares were first issued, raising 2.6 billion Yen (US $22 million) after brokerage fees and expenses. Trading in the shares was active, pushing the price higher. It closed the first day of trading at 8.5 million yen (US $70,000) per share, which placed the two-year-old firm's market capitalization above many of the old economy, Japanese manufacturing leaders, such as Mitsui Engineering & Shipbuilding (Belson, 2000b).

This successful IPO pleased investors, the startup Company Morningstar, and the venture capitalist – SoftBank Capital. This success was seen as a harbinger of good things to come. However, the good times would not last. By September 2000, with the worldwide fallout in Internet stocks, the share prices of Morningstar had plummeted by 65% (Belson, 2000b). With the continuing decline of Internet startup share prices, and the resultant paucity of IPOs due to lack of demand, NASDAQ-Japan struggled to survive for two years. By September of 2002, NASDAQ-Japan ceased operations after NASDAQ withdrew its name and investment, after having lost over lost over US $24 million (Belson, 2002).

Due to NASDAQ-Japan's focus on Internet companies for their target market, certainly its troubles were exacerbated by the crash of the dot-com's. However, the exchange's main problem was timing and delay of the commencement of operations. With a whole year since initial announcement until go-live, the exchange lagged its competitors, JASDAQ and the TSE, in entering the space for IPOS. NASDAQ-Japan launched operations right in the thick of the dot-com fallout. Part of the reason for the delay must have been caused by the need to develop the new SuperMontage trading system from scratch, making it impossible for NASDAQ-Japan to make a more expeditious entry into the market.

NASDAQ's European Activities

NASDAQ-Japan was not the American stock exchange's only overseas venture. In the 1990s, with the rise and proliferation of the common Euro currency, there was a natural convergence towards homogeneous institutional settings of financial markets, which contributed to overcome national barriers, especially in the areas of finance (Giudici & Roosenboom, 2004). However, just like Japan, there were still inefficiencies in how firms gained access to capital. Like the Japanese government before it, both the European Commission and national governments throughout Europe recognized the need for reform of their financial markets, as they realized the inefficiency of raising venture capital in Europe was a competitive hindrance to European firms in comparison to their U.S. counterparts (European-Commission, 1993, 1995).

Much like the creation of MOTHERs by Japan's Tokyo Stock Exchange, stock markets geared towards startups, with less stringent listing requirements were established as ancillary markets to the big boards in a dozen or so countries. The first of these was the AIM (Alternative Investment Market) by the London Stock Exchange in 1995. This was followed in the next two years by a series of "New Markets" which included the Nouveau Marché (France), Euro.NM Belgium, Nieuwe Markt (the Netherlands), The Neuer Markt (Germany), and Nuovo Mercato (Italy). Together these New Markets formed an alliance known as Euro.NM and yet maintained independent listing requirements (Schmiedel, 2001). Thus a true pan-European market was not formed (Ritter, 2003).

Meanwhile, in 1996 a group of financial and banking intermediaries formed the EASDAQ (European Association of Securities Dealers Automated Quotation) with the support of the European Venture Capital Association (EVCA), with the aim to "promote the economic development and the innovating activity of young technology firms, looking forward to financing their growth." (Giudici & Roosenboom, 2004). After an initial expansion in 2000, due to competition from the national markets, the number of listings steadily declined. In an effort to boost business, EASDAQ was acquired by NASDAQ in March 2001 and renamed NASDAQ-Europe (NASDAQ, 2003).

Like NASDAQ-Japan, NASDAQ-Europe sought to gain competitive advantage with its SuperMontage technology and its brand, neither of which were successful. Just like in Japan, timing was also against them as the bursting of the Internet bubble destroyed the need and desire for global IPO offerings. NASDAQ-Europe closed shop in 2004. As for the competing European New Markets, most also closed, and typically followed the path of the German Neuer Markt. Having faced its own technical and financial challenges, it also closed and was absorbed by the Deutsche Borse in 2003 (Ritter, 2003). Table 2 summarizes the three main reasons for NASDAQ's failures in Japan and Europe.

Table 2: Failure Factors: NASDAQ-Europe and NASDAQ-Japan

Factor	Description
Timing	Focusing on a specific industry sector (Internet companies) at the height of the tech boom led to exchange failure in the dot-com crash.
Technology	The need to develop new technology from scratch caused significant delays in time to market. Overreliance on the yet to be developed SuperMontage trading platform led to delays.
Temerity (Over Confidence)	NASDAQ's partners in both Japan and Europe over-estimated their abilities to create viable markets.

This table lists the factors contributing to the failure of NASDAQ-Europe and NASDAQ-Japan.

Despite the failings of NASDAQ-Japan and NASDAQ-Europe, the management of NASDAQ remained committed to overseas expansion. They finally achieved this objective by successfully acquiring the Nordic bourse group OMX for U.S. $3.7 Billion in late May of 2007 (Lannin & Ringstrom, 2007). Unlike earlier attempts to enter markets by creating new exchanges and new technologies, or acquiring relatively new participants in the exchange space, this venture was built upon the acquisition of a mature and established network of exchanges, largely based in the Nordic countries. Since then, NASDAQ has been successful in integrating its technology platform and using its brand name and recognition to successfully expand its trading operations globally.

Bitcoin and NASDAQ

With the success of the OMX acquisition, NASDAQ seems to have regained its confidence in trying new technologies and market offerings, albeit in a more calculated fashion. This has been most recently demonstrated by its various forays with Bitcoin, the all-digital, decentralized crypto-currency launched through a white paper by pseudonymous developer Nakamoto (2008).

One of Bitcoin's key innovations is the creation of a decentralized public transaction ledger, called the "blockchain", which is transparent and immutable, being cryptographically verifiable by all participants in the Bitcoin network. Transactions are denominated in units of its own currency, "bitcoin", so the system is not dependent on any particular national currency or geographic location, being completely digital and international in scope. Built on free open source software, there are no barriers for any party to start participating in the network.

The development path of Bitcoin, and its underlying publicly auditable blockchain database, has had a similar development path as the World Wide Web itself (Folkinshteyn, Lennon, & Reilly, 2015b). Though Bitcoin can be successfully used as a remittance system (Folkinshteyn, Lennon, & Reilly, 2015a), using the bitcoin currency units, the nature of the blockchain enables further uses as well. While bitcoins are required to make transactions on the blockchain, by creating an agreed-upon layer where particular fractions of bitcoins are designated to represent other assets – like shares of stock or titles to real property – the benefits of the blockchain technology can be leveraged to improve the efficiency of other transactions.

In May 2015, NASDAQ OMX announced plans for a pilot project to use Bitcoin's blockchain technology and one such asset-overlay scheme, Open Assets Protocol. This pilot project intends to use the Open Assets Protocol for its Private Market transaction recordkeeping (GlobeNewswire, 2015). Open Assets Protocol is an asset issuance and transfer protocol built on top of the Bitcoin blockchain (GitHub, 2015), and affords the advantages of immutable, non-counterfeit-able, transparent recordkeeping via the blockchain. This is a vast improvement over the currently used manual/spreadsheet process in the Private Market. Unlike NASDAQ's earlier ventures with development of a new trading system, SuperMontage, where a significant operation depended on the successful deployment of a non-existent product, the company is taking a more cautious approach.

First, NASDAQ Private Market is a relatively new marketplace, launched in January 2014, and is quite small (about 75 pre-IPO companies currently participate). This NASDAQ Private Market is perfectly sized to be the test bed for this experiment (Hope & Casey, 2015). Second, the development effort in this case is much more circumscribed, being only a relatively small glue layer on top of the existing and mature blockchain system. NASDAQ OMX has partnered with a Bitcoin startup Chain on this project, and is looking toward expanding the project to other areas depending on the outcome (Orcutt, 2015).

In March 2015, NASDAQ OMX also announced that it has offered to license its X-Stream exchange engine to Noble Markets, a start-up company that plans to open a Bitcoin and other cryptocurrency exchange for institutional investors (Zacks, 2015).

In April 2015, NASDAQ of Sweden approved a bitcoin-based exchange traded note, which successfully launched in May 2015 (NASDAQ OMX Nordic, 2015; Perez, 2015; XBTProvider.com, 2015b) . Since then, it has occasionally been the highest-volume ETN on the exchange (XBTProvider.com, 2015a).Table 3 summarizes the uses of Bitcoin and Blockchain by NASDAQ OMX.

The NASDAQ OMX Group is not the only player in the exchange marketplace that is exploring Bitcoin and blockchain technology for asset issuance and tracking. ICE, the parent of New York Stock Exchange, had earlier invested in Coinbase, an exchange, dealer, transaction processor, and wallet provider for Bitcoin, in January 2015 (MarketWatch, 2015). Overstock has filed a prospectus with the SEC in May 2015, aiming to issue a private bond using the blockchain (Metz, 2015). Digital Asset Holdings, a provider of transaction clearing services on top of the blockchain, has recently acquired several startup companies in the Bitcoin arena and is aiming to use the technology to reduce settlement latency (Prisco, 2015). In September 2015, NASDAQ, in a consortium with Citi, Visa, and several other participants, invested $30 million into Chain, in a Series B round valuing the company at about $150 million (Shin, 2015).

Table 3: NASDAQ OMX Group's Ventures with Bitcoin and Blockchain

Organization	Activity	Purpose
NASDAQ Private Market	Use Open Assets Protocol for its Private Market	Increase efficiency and transparency of transactions
NASDAQ OMX partnership with Chain	Chain will develop the software interfaces for use with the Open Assets Protocol	Enable Private Market participants to easily use the technology to make and verify transactions
Noble Markets	Licensed NASDAQ's X-Stream exchange engine	Create a high-capacity robust Bitcoin exchange targeted at institutional investors
NASDAQ Sweden	ETN (Exchange Traded Note) for bitcoins	ETN (Exchange Traded Note) enables NASDAQ OMX clients to invest in bitcoins as easily as any other traded asset.

This table lists strategic ventures undertaken by NASDAQ OMX exploring the potential of Bitcoin and blockchain technology.

By licensing out their own X-Stream core technology to Noble Markets to develop a Bitcoin and other cryptocurrency exchange, NASDAQ OMX Group may also gain expertise in the trading of a new financial instrument without risk of financial or social capital should the new crypto currency exchange fail. This would enable NASDAQ OMX Group to remain competitive with their NYSE rivals who have directly put venture capital into Coinbase's launch of the first U.S. based Bitcoin exchange.

THEORETICAL MODELS

This section of the paper develops two models, drawing upon the strategy literature. The first model is that of the specific workings of the NASDAQ-Japan market. Based on this model, a second model of operations of Markets in General is created. From these models, we derive a series of propositions that incorporates our additional findings from Nasdaq's European and Bitcoin ventures.

NASDAQ-Japan Model

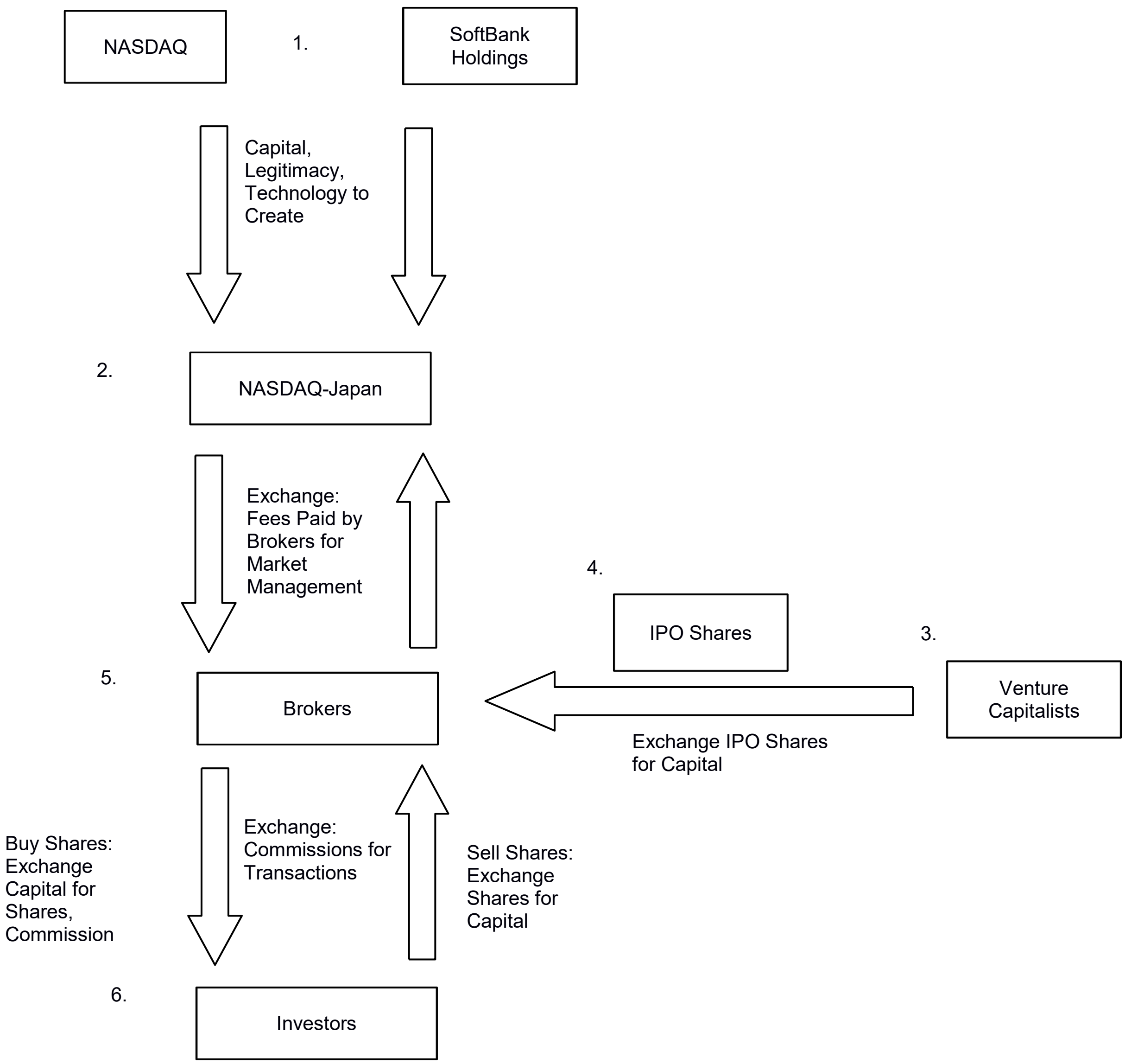
To illustrate the creation and operation of NASDAQ-Japan, a model is drawn in Figure 1. Using a flow chart format, each box represents a Market Participant. Following the Series of Numerals adjacent to each Box, Table 4 tracks the Sequence of Actions that occurred in NASDAQ-Japan.

Table 4: Sequence of Actions Taken by Market Participants in NASDAQ-Japan

Market Participant	Action Taken by Market Participant
1) **NASDAQ & SOFTBANK** Combine resources and create	Combine Resources of Capital, Expertise, Routines, Legitimacy, Technology, etc. to create a new Schumpeterian 'enterprise' to fill demand for a new market.
2) **NASDAQ-Japan** the new market. To begin trading,	Begins operations by establishing market mechanisms and governance procedures.
3) **VENTURE CAPITALISTS** Begin to produce the Product,	In exchange for Capital, Venture Capitalists start floating IPO shares.
4) **IPO SHARES**[1]. Which are sold to the	IPO shares are the actual Product traded in the market.
5) **BROKERS** Begin selling the shares to the ultimate Consumers, the	Brokers offer the stock shares, earning a commission on each transaction from their customers, the Investors.
6) **INVESTORS** who Buy and Sell the Product (the shares) using the Broker as an intermediary.	Consumers convert shares back and forth into capital (e.g. buy and sell) in attempts to take advantage of asymmetries of information, which lead to price discrepancies.

[1]Note: IPO Shares are not 'Market Participants' but rather a Market Product. *This table lists the interdependent sequence of actions taken by market participants to jump start NASDAQ-Japan.*

Figure 1: Model of NASDAQ-Japan's Market Participants and Sequence of Actions



This figure represents in graphical form our model of NASDAQ-Japan's market participants and sequence of actions that is described in Table 4.

As the Market (NASDAQ-Japan) continues to operate, Actions 3 through 6 re-occur in a continuous fashion. More IPO shares are offered by the Venture Capitalists, brought to market by the Brokers, and then traded by the Investors.

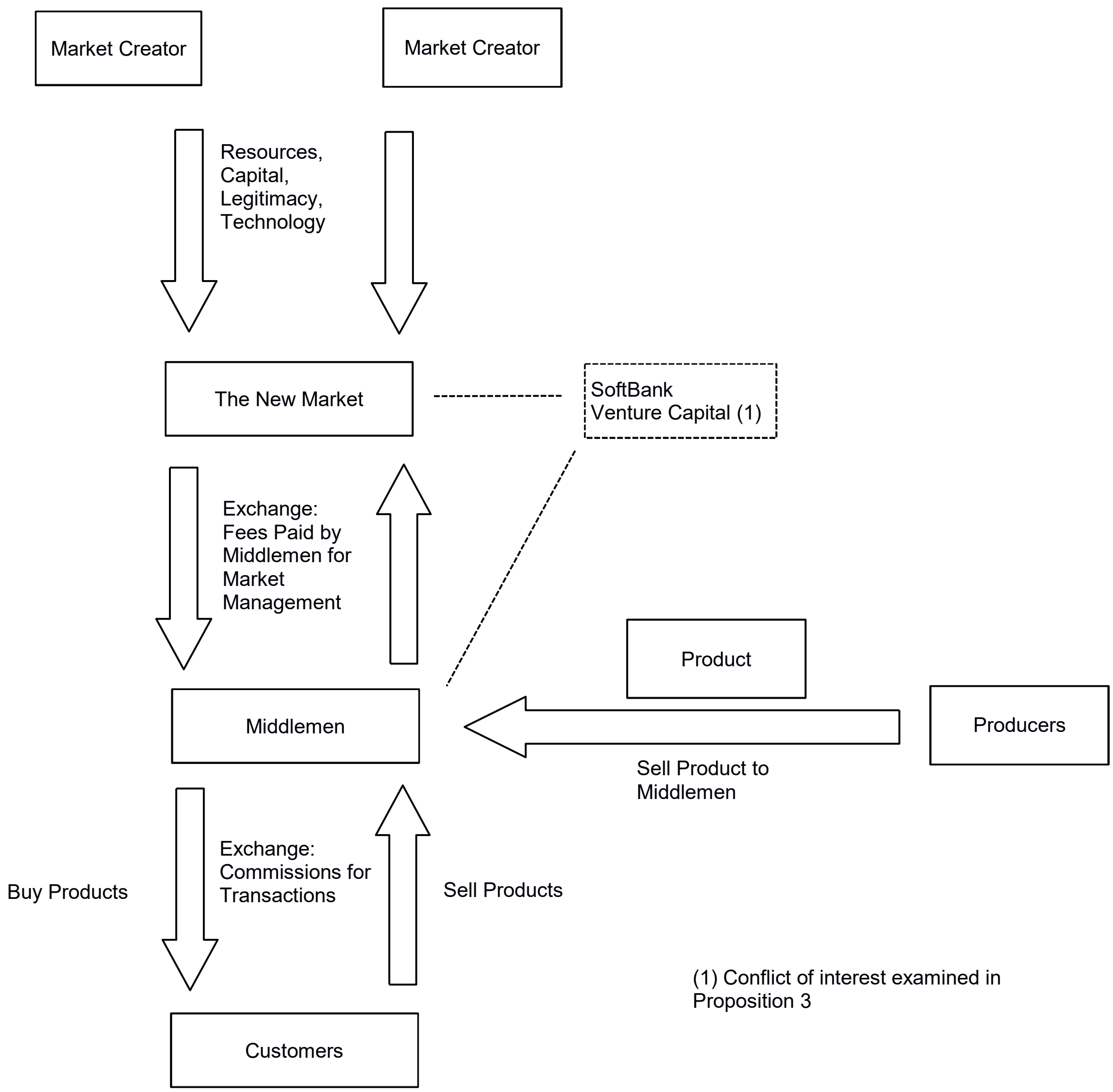
General Market Model

In the succeeding section of this paper, a series of Propositions about the operations of markets in general is posited. To facilitate understanding of these Propositions, a more generalized Model of Market operations is needed. Figure 2 creates this General Model, based on the sequences of Actions by Market Participants as developed in the NASDAQ-Japan specific Figure 1. The terminology used in Figure 2 is extrapolated from the terms used in Figure 1, as listed in Table 5.

Table 5: Terminology Used in describing Models and Propositions:

General Market Terms Used in Figure 2	NASDAQ-Japan Specific Terms Used in Figure 1
Market Creators	NASDAQ & SoftBank
Market Managers	NASDAQ-JAPAN
Market Producers	Venture Capitalists
Market Products	IPO Stocks
Market Middle-Men	Stock Brokers
Market Consumers	Investors

Figure 2: General Model of a Market used to Illustrate Propositions



This figure represents in graphical form the general market model that is delineated in Table 5.

PROPOSITIONS

Part of the reasons attributable to NASDAQ-Japan's demise is that as the CREATOR, NASDAQ was unable to recognize its routines and tacit knowledge, and then pass these capabilities onto its new creation, NASDAQ-Japan (Nelson 1982). In the day-to-day operations of the new market, NASDAQ took a "hands off" policy in the operations. Instead, NASDAQ relied upon the perceived expertise of SoftBank ((Economist, 2002b). NASDAQ wrongly believed that SoftBank Holdings' past business successes in Japan would compensate for any lack of experience in running a market. SoftBank and Son Masayoshi contributed to this misperception by over-estimating their abilities to adapt into a new business (Teece & Pisano, 1994). In the role of Market Creator, SoftBank was competent as the market could be viewed as another venture capital investment. However, in the role of Market Manager, SoftBank had neither prior knowledge nor organizational understanding to build upon (Argote, 1999).

This situation of mutual misperception was not aided by the nature of the market. In accordance with the conclusions drawn by Eisenhardt (2000), in the hyper-velocity market of Dot Com IPOs, it was quite difficult to identify critical processes because of the time pressures. Instead the Market Managers relied upon knowledge created 'on the fly' from situation specific experiences, which might not be applicable to other situations. If the market for Internet startups had continued to be robust, (e.g. no bursting of the internet speculative bubble) over time the market may have stabilized to be less dynamic and allow time for management to establish "best practices". This leads us to our first proposition:

Proposition 1: When a firm attempts to duplicate its success in an existing Market, the degree of success in the New Market is positively related to the firm's capacity to identify and replicate Routines and Tacit Knowledge.

In the implementation of NASDAQ-Japan, NASDAQ also failed to identify a fundamental component of its environment – timely, accurate, and transparent financial statements from firms trading on its exchange (Belson, 2000b). At the time of the founding of the new market, Japanese government financial reporting regulations, compared to the US, were not very strict. Japanese firms were only required to file yearly statements of their financial accounts. Compared with the US SEC (Securities and Exchange Commission) regulations mandating not only annual but also quarterly financial statements, Japanese accounting was far less 'transparent' (Aoki, 2000). These lax Japanese regulations, combined with a lack of historical data (e.g. no operating history), resulted in limited available data for those parties outside the startup firm when going IPO. Therefore, asymmetries of information among the market participants arose. As described by Williamson (1975), this asymmetry put a limit on bounded rationality, which in turn affected the functioning of all market participants.

The Market Manager (NASDAQ-Japan) could not make an accurate judgment whether to allow listing of a startup's stock on its exchange. The Middle-Men (the Brokers) likewise could not make informed decisions regarding the pricing of the stock. This resulted in potential Consumers (the Investors) having great difficulties in making rational buy or sell decisions. From this asymmetry of information, inefficiencies were created, as all participants had to make a 'best guess' in the pricing the Product - the actual IPO shares (Venkataraman, 2000).

Another danger from this asymmetry was the dilemma faced by the Producers (Venture Capitalists) regarding whether or not to deploy short-term strategies (i.e. maximize profits by cashing out quickly) or long-term strategies (i.e. help create a market for their shares). Because of the opaque accounting, the decision variables used by the Producers (Venture Capitalists) were unknown to the rest of the market participants, placing them in a grave disadvantage (Miller, 1992). From this situation, we make our second proposition:

Proposition 2: The Degree of Asymmetry of information in a market is negatively related with the efficient functioning of Market Participants.

Another major difficulty that plagued the nascent exchange was SoftBank's inherent and dichotomous conflict of interest, as it attempted to play dual roles in the market. One part of SoftBank, SoftBank Capital – the Venture Capitalist side, acted as a Producer, floating IPO's on the exchange. In this role, SoftBank wanted to obtain as much capital as possible for Internet startup investments by issuing IPO shares at the highest price the market would bear. Simultaneously, SoftBank Holdings, NASDAQ's partner in NASDAQ-Japan, acting as Market Manager, sought to maximize the amount of trading of the new IPO shares, by encouraging IPO share prices to be as low as possible in order to attract investors (Clemens, 1951). This conflict is illustrated in Figure 2.

Because of this dilemma, inefficiency in the Market was engendered as the problem contributed to the difficulty in pricing the Product. For in the Market's hierarchical structure, the individual (i.e. SoftBank Capital) found that own self-interests conflicted with those of the overall organization (Miller, 1992). Perhaps more detrimental however, was that these two opposing desires gave rise to a major moral hazard, as they could only be reconciled by some type of collusion (Brandenburger & Nalebuff, 1996) . As there is no evidence of any type of collusion whatsoever, this ongoing problem continued to affect the operations of the Market. From this situation, we derive our third proposition:

Proposition 3: If a firm attempts to play a dual role in a market, that of Market Manager and that of Market Producer, there is an inherent conflict of interest.

When NASDAQ-Japan was first launched, a major enticement to participate in the market was the market's connection to the US NASDAQ stock market. In the plan for the 24/7 global exchange, NASDAQ-Japan promised Japanese investors that they would be able to trade US securities and that Japanese Dot Com startups would have access to overseas capital (Economist, 2002a).

These capabilities were to be achieved through the development and implementation of a proprietary software-trading platform called SuperMontage (Economist, 2002a). As neither of the competing Markets (MOTHERs nor JASDAQ) had such a resource, SuperMontage would create a major competitive advantage, as it would be a unique institutional mechanism (Porter, 1991). However, this competitive advantage never materialized due to the failure of the enabling trading technology (McNamee, 2002).

Delayed for over two years and fraught with technical problems, SuperMontage finally arrived in Japan in September 2002, just as NASDAQ had withdrawn from the exchange and NASDAQ-Japan ceased to exist. Japanese investors were never able to trade in US securities so did not profit from the US Internet stock boom (Belson, 2002). From this we make our fourth proposition:

Proposition 4: Over reliance on a resource that has yet to be created and implemented does not lead to a competitive advantage.

Clearly SuperMontage was a software technology that was more "vaporware" than software. This over reliance on expected performance was a critical factor in the failings of both NASDAQ-Japan and NASDAQ-Europe.

In sharp contrast, NASDAQ OMX Group took a far more methodical approach in adopting the nascent Bitcoin and blockchain technology. By only incorporating proven aspects of the technology (e.g. the inviolable record keeping aspects of the distributed ledger of the blockchain) as opposed to relying on the viability of depending upon the volatile digital currency Bitcoin, NASDAQ OMX Group has successfully grafted (Lennon, 2008) this new technology onto their existing operations.

CONCLUDING COMMENTS

Over the past 15 years, NASDAQ, the world's first all-electronic stock exchange, has actively engaged in efforts to serve the global digital economy by expanding its reach beyond its original domestic U.S. market, trying to create a global 24/7 trading platform, to serve customers in the U.S., Japan, and Europe. More recently, the renamed NASDAQ OMX Group has been experimenting with the disruptive fintech (financial technology) Bitcoin and its underlying technology blockchain to develop robust trading solutions, which drastically reduce transaction and record keeping costs. In this paper, we analyze the various approaches taken by NASDAQ in its expansion ventures and describe the similarities and differences in these undertakings, in order to identify successful strategies for firms who desire to increase the quality of their products while increasing efficiency and reducing the costs of their services.

In earlier strategic ventures in Japan and Europe, the company attempted to build from the ground up, creating new exchanges and new technologies to support them, or alternatively acquiring relatively new inexperienced participants in the exchange space. These early ventures failed in part due to unfortunate timing, and in part due to the relative difficulty of successfully building a set of interdependent technologies and acquiring market share at the same time. Subsequently, NASDAQ was successful in European expansion via the acquisition of a mature and established network of exchanges.

In the more recent strategic ventures to leverage recent financial technologies, the company is taking a cautious and restrained approach. Despite the hype surrounding Bitcoin, NASDAQ OMX Group is not betting the bank on this new technology. Instead, compared with its earlier global expansion efforts, this far more prudent experimentation through licensing and relatively small-scale joint ventures has the potential to bring this firm the benefits of Bitcoin and blockchain, without risking its core operations. Clearly the firm does not want another NASDAQ-Europe or NASDAQ-Japan fiasco that was dependent on the success of unproven, or even undeveloped, technology in the form of the SuperMontage platform.

This chastened NASDAQ OMX Group is very shrewdly first looking to supplement, not supplant, their existing businesses and trading platforms with new Bitcoin and blockchain based systems. If this new technology proves successful, NASDAQ OMX, having learned the pitfalls of overreliance on new technology from its European and Japanese misadventures, will be well equipped to integrate Bitcoin and blockchain technologies effectively while maintaining the firm's global competitiveness.

Though we thoroughly analyzed the particular events from NASDAQ's history using a case-study approach, our research is limited in that we only examine a small sample of strategic initiatives. Future research directions may include a collection of a larger cross-sectional sample of similar ventures, in order to conduct a broader data-driven study.

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BIOGRAPHY

Dr. Mark Lennon is an Associate Professor of Management at California University of Pennsylvania. He can be reached at California University of Pennsylvania, 250 University Ave., California, PA 15419, lennon@calu.edu.

Dr. Daniel Folkinshteyn is an Associate Professor of Finance at Rowan University. He can be reached at Rowan University, 201 Mullica Hill Rd., Glassboro, NJ 08028, folkinshteyn@rowan.edu.

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